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OUTLOOK & SITUATION

Many persons provided help in collecting the survey data and other information in this report. They include: employees of commercial banks, the American Bankers Association, and life insurance companies, economists of the Federal Reserve System, State Directors and other employees of the Farmers Home Administration, presidents and other employees of the Federal Land Banks and the Federal Intermediate Credit Banks, employees of the Farm Credit Administration, the Extension Service, and officials of the credit corporations of farm machinery manufacturing companies.

The assistance of economists in the Economic Research Service was of much help in preparing the Type of Farm section as well as some other parts of this report:

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In This Issue

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Summary

In 1981 farmers faced the second consecutive year of low farm income and high interest rates. Consequently, the debt burden of many farmers has worsened. The farm sector debt-to-asset ratio has increased from 16.0 percent on January 1, 1981, to an estimated 16.5 percent on January 1, 1982. Also, the ratio of total debt outstanding to total cash income is forecast to rise from 228 percent for 1980 to 250 percent for 1981.

The financial condition of the farm sector is not expected to improve in 1982. Interest rates will average about the same as in 1981. Although they are expected to decline through the first half, they likely will rise during the second half as the economy strengthens. Net farm income is expected to remain at a reduced level. Crop farmers are faced with large supplies, and demand will be moderated by sluggish economic conditions. This will keep downward pressure on crop prices and squeeze producer returns. Livestock and poultry producers will benefit from lower feed costs, but improvement in profit margins will be limited by the small size of gains in product prices.

Gross investment in the farm sector in 1981 is forecast at about $22.4 billion, down from $25.1 billion in 1980. Many farmers postponed purchasing capital items this year because of low income prospects and the high cost of borrowing. Investment next year may return to 1980

levels, perhaps to $25 billion, encouraged by tax cuts and by the comparative long-term attractiveness of farmland over alternative investments.

Total farm debt rose 11.4 percent in 1981 and is expected to rise only 10 percent in 1982. These rates are low compared with the average growth of 15.4 percent for 1977-79. Of total farm debt outstanding, the shares held by the Farm Credit System, the Farmers Home Administration (FmHA), and the Commodity Credit Corporation are expected to have risen during 1981. However, the FmHA's share will decline as the agency reduces its presence in farm credit markets.

The Economic Recovery Tax Act of 1981 provides the most sweeping tax cuts in U.S. history. Lower personal and corporate tax rates and liberalized capital cost recovery will provide greater incentives for savings and investment. Estate and gift tax revisions should facilitate the transfer of farm estates from one generation to another.

The value of farm assets is expected to be up almost 8 percent in 1981, to a forecast total of nearly $1.2 trillion. However, this increase in asset value will not match 1981 inflation, which is expected to be about 8.7 percent (January 1981-January 1982) as measured by the Consumer Price Index. Low net farm income, together with high interest rates, reduced activity in the farm real estate market. Real estate value is expected to be up about 8 percent in 1981 and 7 to 12 percent in 1982—compared to 1979's 15-percent increase. The growth in 1982 values is expected because of the favorable long-term outlook for farmland.

1982 BALANCE SHEET OF THE FARMING SECTOR

Farm assets, including farm households, are expected to total $1,177 billion on January 1, 1982, up 7.9 percent from last year (table 1 and fig. 1). Farm debt is estimated to have increased 11.4 percent from January 1, 1981, to the beginning of 1982, totaling $194 billion. Farmers' equity will increase 7.3 percent to $982 billion—the smallest percentage gain since 1972.

Farm sector real wealth (or equity) is expected to show about a 1.5-percent decline for 1981, as the expected increase in equity fails to keep pace with an estimated inflation rate (January 1981-January 1982) of about 8.7 percent. Growth in farm equity comes from two sources, unrealized capital gains and retained earnings. In 1981 the unrealized capital gains, in real terms, are expected to be close to zero.

Farm real estate value is projected to have increased 8 percent to $895 billion during 1981, down from the 9.6-percent increase of 1980. Low farm income and high interest rates are expected to have depressed land values for the second year in a row. Since real estate accounts for approximately 76 percent of the balance sheet assets and 85 percent of the capital gains, the decline in the real value of farmland is responsible for the decrease in farm sector real wealth during 1980 and 1981.

Farm sector non-real estate assets are expected to reach $239 billion on January 1, 1982, an increase of 7.9 percent from the previous year. Value of livestock shows the smallest increase, 3.5 percent. Machinery values are expected to increase 7 percent to $110 billion. Machinery sales have been slow for the second year in a row. The value of crop inventory is expected to increase 17.6 percent to $43 billion. This substantial increase is due to the large crops produced this year. Many farmers will store their crops, hoping that prices will improve in 1982.

Financial assets—which consist of currency, demand deposits, time deposits, savings bonds, and the net worth of farmers' cooperatives—are expected to total $43 billion on January 1, 1982, up 6.8 percent from January 1, 1981. Cooperatives are expected to account for 74 percent of the increase. The other financial assets are expected to increase 2.8 percent during 1981.

Farm real estate loans outstanding are projected to be up 12.3 percent, to $103 billion, on January 1, 1982.

Table 1—Balance Sheet of the farming sector, 1975-1982[a]

Items/year (Jan. 1)	1975	1976	1977	1978	1979	1980	1981	1982[b]	Percent Change 1981-82
	Billion dollars								
Assets									
Physical assets:									
Real estate	359.8	418.2	496.4	554.6	655.1	756.2	828.7	895.0	8.0
Nonreal estate									
Livestock and poultry	24.5	29.4	29.0	31.9	51.3	61.4	60.9	63.0	3.5
Machinery and motor vehicles	54.7	64.0	71.0	76.9	85.1	96.7	102.3	109.5	7.0
Crops stored on and off-farm	23.3	21.3	22.1	24.8	28.0	33.5	36.4	42.8	17.6
Household equipment and furnishings	12.6	12.8	13.7	15.5	18.0	19.4	22.0	23.7	7.5
Financial assets:									
Deposits and currency	14.0	14.5	14.8	15.2	15.5	15.9	16.2	16.6	2.7
Savings Bonds	3.8	3.9	3.9	3.9	4.2	4.0	3.8	3.9	3.5
Investments in cooperatives	11.0	12.2	13.1	14.3	15.7	17.3	20.0	22.0	10.3
Total Assets[c]	503.8	576.3	664.0	737.1	872.9	1,004.4	1,090.3	1,176.5	7.9
Claims									
Liabilities:									
Real estate debt	46.3	51.1	56.6	63.7	70.8	82.7	92.0	103.4	12.4
Nonreal estate debt to:									
CCC	0.3	0.3	1.0	4.5	5.3	4.5	4.4	5.7	29.5
Others	35.2	39.4	45.0	51.1	60.0	70.7	78.2	85.4	9.2
Total liabilities	81.8	90.8	102.6	119.3	136.1	157.9	174.5	194.5	11.4
Proprietors' equity	421.9	485.5	561.4	617.8	736.8	846.5	915.7	982.1	7.3
Total claims	503.8	576.3	664.0	737.1	872.9	1,004.4	1,090.3	1,176.5	7.9
Debt to asset ratio	16.2	15.7	15.5	16.2	15.6	15.7	16.0	16.5	3.1

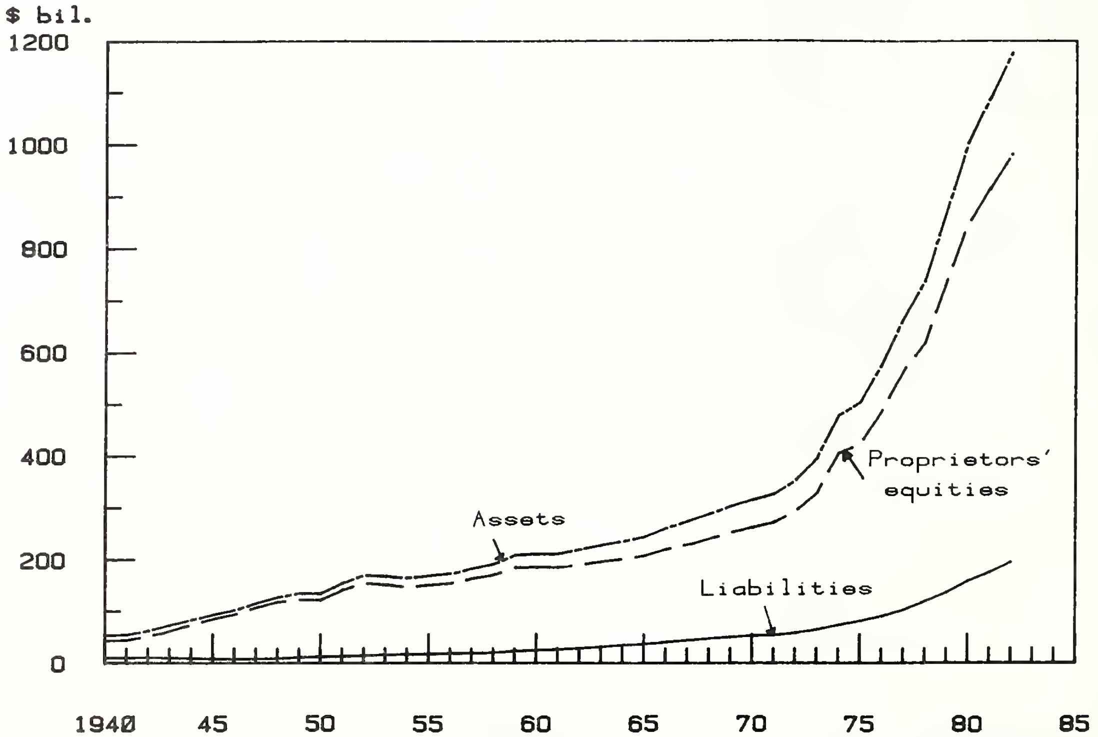
[a]Includes farm households. [b]Preliminary. [c]Totals may not add due to rounding.

Federal land banks will account for most of the increase. The value of outstanding farm real estate loans from Federal land banks will show an increase of 21.6 percent, to $44 billion. Life insurance companies will have the smallest gain, with only a 3.7 percent increase. Commercial banks expect their outstanding farm real estate loans to decrease 1.1 percent.

Farmers' non-real estate debt is projected to have increased 10.4 percent during 1981, faster than the projected increase in non-real estate assets. Commodity Credit Corporation (CCC) loans have the largest expected percentage increase—30.2 percent—because of the large harvest and low prices. Commercial banks and individuals and others are expected to have the smallest percentage increase in non-real estate loans outstanding.

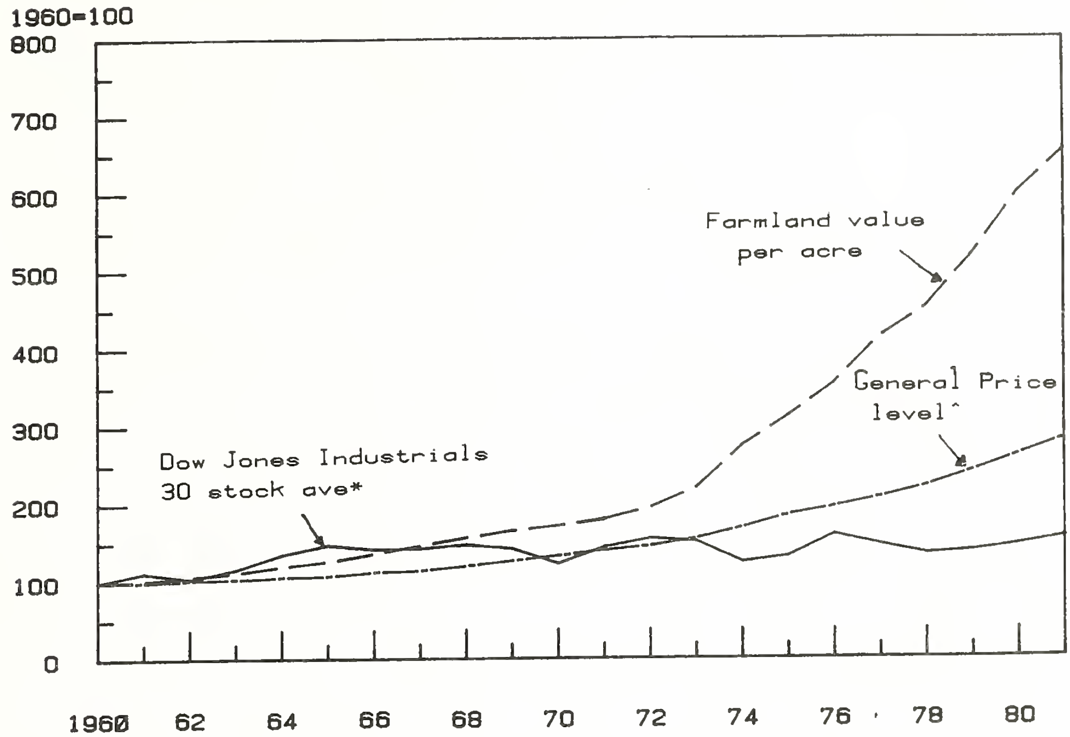
The expected 7.9-percent increase in asset values and the 11.4-percent rise in debt values will cause equity to grow by 7.3 percent from January 1, 1981, to $982 billion on January 1, 1982. Since debt is increasing faster than assets, the debt-to-asset ratio will increase to 16.5 percent at the beginning of 1982.

Fig. 1 Balance Sheet of the Farming Sector



Data as of January 1 each year. Data for 50 states beginning with 1960. 1982 Preliminary.

Fig. 2 Farmland Value Per Acre compared with Dow Jones Industrial Stock Average and The General Price Level



^ Three quarter average for 1981. * Jan. to Sept. for 1981.

LOW FARM INCOME AND HIGH INTEREST RATES AGGRAVATE FARM FINANCIAL CONDITIONS

The farm credit situation has not changed throughout the year. Unlike 1980, 1981 saw little relief from record-high interest rates.

Although interest rates were high, money was available to those who were willing and able to borrow. Commercial banks were liquid, with most banks indicating that their loan-to-deposit ratio was lower than desired. The Farm Credit System (FCS), of course, has had access to the national money markets, making funds available to creditworthy farmers at rates which reflect market conditions.

This was the second consecutive year of depressed farm income. Low farm income and high interest rates combined to keep the rate of growth in total farm debt to a relatively low 11.4 percent. While this growth rate is somewhat higher than that of 1980, it is significantly below the rates of the latter seventies.

Low farm income has also led to slower loan repayment, higher rates of delinquency and default, and a decline in credit quality in general. While many lenders have indicated a deterioration in credit quality, most have pointed out that the current situation is not a cause for alarm.

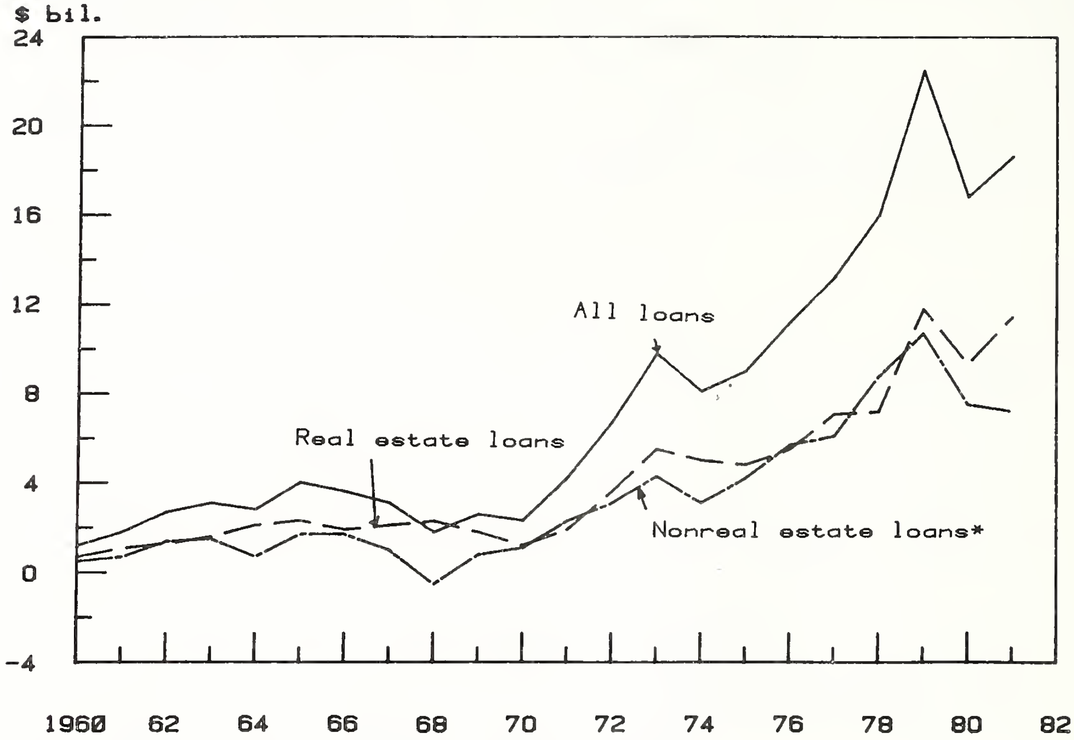
The prospects for a third consecutive year of depressed farm income and high interest rates may mean that many low-equity and/or highly leveraged farmers will face severe financial problems in 1982.

Against this picture, the Farmers Home Administration (FmHA), is altering significantly the focus of its farm lending programs. The Emergency Lending Programs will be reduced substantially in 1982. FmHA will focus on supervised lending to farmers who cannot obtain credit elsewhere.

Farm Real Estate Debt

Total farm real estate debt rose about 12.3 percent during 1981, to a forecast level of $103.4 billion for January 1, 1982 (table 2). This level constitutes 53.2 percent of total farm debt, a slight increase from 52.7 percent on January 1, 1981.

Fig. 3 Annual Change in Farm Debt



1981 Preliminary. * Excluding CCC Loans.

The Federal land banks (FLB's) are expected to continue to increase their market share of real estate loans outstanding from 39 percent to 42 percent during 1981 (table 3). The 22 percent rate of growth in FLB loans outstanding is comparable to rates of the last couple of years. The main reason for the growth in the market share of FLB's is the competitive advantage they hold over most other lenders of real estate loans. Due to the recent rapid rise in interest rates and the FCS policy of basing interest rates on their average cost of funds, the FLB's have been the lowest cost source of funds.

The Farmers Home Administration's real estate debt is projected to increase 18 percent in 1981, bringing its share of total farm real estate debt to almost 9 percent. FmHA will probably lose market share in the future, however, because of changes in the Emergency Disaster Loan Program.

Farm real estate debt held by life insurance companies (LIC's) is expected to increase only 4 percent during 1981. Their market share will likely decline about 1 percentage point to 13 percent. High interest rates have reduced the LIC funds available for agricultural investment because of high demand for policy loans as well as because alternative high yielding investments have been available to LIC's. Also, to the extent that funds are available for agricultural investment, LIC's are finding the demand for their loans extremely weak.

Commercial banks' share of farm real estate debt outstanding is expected to decline from 9.5 percent on January 1, 1981, to 8.3 percent in 1982. During 1981 real estate loans outstanding held by commercial banks are expected to have declined by about 1 percent. This would be the first time in over 30 years that commercial banks did not show positive absolute growth in farm real estate loans outstanding. Unless interest rates decline substantially in 1982, we can expect commercial banks' market share to continue to decline next year.

It is expected that the market share of the category "individuals and others" will decline to about 27.6 percent by January 1, 1982. In spite of high interest rates, which encourage greater seller financing, the low level of land transfers this year should reduce individuals' and others' share of total loans outstanding. Since seller-financed mortgages tend to have shorter maturities than institutional loans, a larger number of seller-financed loans will be paid off without being offset by new seller-financed loans.

Farm Non-real Estate Debt

Total non-real estate debt is expected to have risen about 10.4 percent in 1981, to a projected $91.1 billion on January 1, 1982 (table 5).

Commercial banks' share of non-real estate debt is expected to have declined almost 2 percentage points, to 36.4 percent. Non-real estate loans held by commercial banks are forecast to be 5 percent greater than at the

Table 2—Total farm debt 1972 and 1977-82[a]

Year	Real estate debt	Nonreal estate debt: Excl. CCC price support and storage loans	Nonreal estate debt: CCC price support and storage loans	Nonreal estate debt: Incl. CCC price support and storage loans	Total debt: Excl. CCC loans	Total debt: Incl. CCC loans
	Million dollars outstanding Jan. 1					
1972	32,208	24,644	2,262	26,906	56,852	59,114
1977	56,559	45,061	1,012	46,073	101,620	102,632
1978	63,641	51,142	4,489	55,631	114,783	119,272
1979	70,833	59,998	5,242	65,240	130,831	136,073
1980	82,678	70,702	4,500	75,202	153,380	157,880
1981	92,018	78,160	4,367	82,527	170,178	174,545
1982	103,375	85,407	5,685	91,092	188,782	194,467
	Dollar change in year					
1977	7,082	6,081	3,477	9,558	13,163	16,640
1978	7,192	8,856	753	9,609	16,048	16,801
1979	11,845	10,704	-742	9,962	22,549	21,807
1980	9,340	7,458	-133	7,325	16,798	16,665
1981	11,357	7,247	1,318	8,565	18,604	19,922
	Percent change in year					
1977	12.5	13.5	343.6	20.7	13.0	16.2
1978	11.3	17.3	16.8	17.3	14.0	14.1
1979	16.7	17.8	-14.2	15.3	17.2	16.0
1980	11.3	10.5	-3.0	9.7	11.0	10.6
1981	12.3	9.3	30.2	10.4	10.9	11.4
	Percentage distribution of debt outstanding Jan. 1					
1972	54.5	41.7	3.8	45.5	96.2	100.0
1977	55.1	43.9	1.0	44.9	99.0	100.0
1978	53.4	42.8	3.8	46.6	96.2	100.0
1979	52.1	44.1	3.8	47.9	96.2	100.0
1980	52.4	44.8	2.8	47.6	97.2	100.0
1981	52.7	44.8	2.5	47.3	97.5	100.0
1982	53.2	43.9	2.9	46.8	97.1	100.0

[a]1982 Preliminary.

Table 3—Real estate farm debt, 1972 and 1977-82[a]

Year	Debt owed to reporting institutions: Federal land banks	Life insurance companies	All operating banks	Farmers Home Administration	Total	Individuals and others	Total
	Million dollars outstanding Jan. 1						
1972	7,880	5,564	4,219	2,618	20,281	11,927	32,208
1977	18,455	7,400	6,781	3,657	36,293	20,266	56,559
1978	21,391	8,819	7,780	3,982	41,972	21,669	63,641
1979	24,619	10,478	8,557	4,121	47,775	23,058	70,833
1980	29,642	12,165	8,623	7,111	57,541	25,137	82,678
1981	35,945	12,928	8,745	7,715	65,333	26,685	92,018
1982	43,721	13,400	8,650	9,104	74,875	28,500	103,375
	Dollar change in year						
1977	2,936	1,419	999	325	5,679	1,403	7,082
1978	3,228	1,659	777	139	5,803	1,389	7,192
1979	5,023	1,687	66	2,990	9,766	2,079	11,845
1980	6,303	763	122	604	7,792	1,548	9,340
1981	7,776	472	-95	1,389	9,542	1,815	11,357
	Percent change in year						
1977	15.9	19.2	14.7	8.9	15.6	6.9	12.5
1978	15.1	18.8	10.0	3.5	13.8	6.4	11.3
1979	20.4	16.1	.8	72.6	20.4	9.0	16.7
1980	21.3	6.3	1.4	8.5	13.5	6.2	11.3
1981	21.6	3.7	-1.1	18.0	14.6	6.8	12.3
	Percentage distribution of debt outstanding Jan. 1						
1972	24.5	17.3	13.1	8.1	63.0	37.0	100.0
1977	32.6	13.1	12.0	6.5	64.2	35.8	100.0
1978	33.6	13.9	12.2	6.3	66.0	34.0	100.0
1979	34.7	14.8	12.1	5.8	67.4	32.6	100.0
1980	35.9	14.7	10.4	8.6	69.6	30.4	100.0
1981	39.1	14.0	9.5	8.4	71.0	29.0	100.0
1982	42.3	13.0	8.3	8.8	72.4	27.6	100.0

[a]1982 Preliminary.

Table 4—Changes in volume of different types of farm loans at commercial banks[a]

Type of loan	Actual change: Mid-1980 to mid-1981			Expected change: Mid-1981 to mid-1982		
	Increase	Decrease	Same	Increase	Decrease	Same
	Percent of banks reporting					
General operating	64	19	17	73	6	21
Farm machinery and equipment	24	51	25	37	26	37
Crop storage	20	29	51	22	20	58
Other livestock incl. dairy	25	27	48	25	15	60
Feeder cattle (feed and calves)	11	55	34	19	31	50
All nonreal estate	45	27	28	48	14	38
Farm real estate	13	44	43	12	36	52

[a]Data were obtained in a survey conducted by the American Bankers Association (ABA) in Aug.-Sept. 1981.

Table 5—Nonreal estate farm debt, 1972 and 1977-82[a]

Year	Debt owed to reporting institutions (excluding CCC)					Individuals and others[c]	Total excluding CCC loans	CCC price support and storage loans	Total, including CCC loans
	All operating banks	Production credit assoc.	Federal intermediate credit banks[b]	Farmers Home Admin.	Total				
	Million dollars outstanding Jan. 1								
1972 . . .	12,498	6,078	237	771	19,584	5,060	24,644	2,262	26,906
1977 . . .	23,283	12,233	368	1,877	37,761	7,300	45,061	1,012	46,073
1978 . . .	25,709	13,508	374	3,141	42,732	8,410	51,142	4,489	55,631
1979 . . .	28,273	15,016	509	5,780	49,578	10,420	59,998	5,242	65,240
1980 . . .	31,034	18,299	666	8,983	58,982	11,720	70,702	4,500	75,202
1981 . . .	31,567	20,027	810	11,756	64,160	14,000	78,160	4,367	82,527
1982 . . .	33,100	22,530	1,022	13,755	70,407	15,000	85,407	5,685	91,092
	Dollar change in year								
1977 . . .	2,426	1,275	6	1,264	4,971	1,110	6,081	3,477	9,558
1978 . . .	2,564	1,508	135	2,639	6,846	2,010	8,856	753	9,609
1979 . . .	2,761	3,283	157	3,203	9,404	1,300	10,704	-742	9,962
1980 . . .	533	1,728	144	2,773	5,178	2,280	7,458	-133	7,325
1981 . . .	1,533	2,503	212	1,999	6,247	1,000	7,247	1,318	8,565
	Percent change in year								
1977 . . .	10.4	10.4	1.6	67.3	13.2	15.2	13.5	343.6	20.7
1978 . . .	10.0	11.2	36.1	84.0	16.0	23.9	17.3	16.8	17.3
1979 . . .	9.8	21.9	30.8	55.4	19.0	12.5	17.8	-14.2	15.3
1980 . . .	1.7	9.4	21.6	30.9	8.8	19.5	10.5	-3.0	9.7
1981 . . .	4.9	12.5	26.2	17.0	9.7	7.1	9.3	30.2	10.4
	Percentage distribution of debt outstanding Jan. 1								
1972 . . .	46.4	22.6	.9	2.9	72.8	18.8	91.6	8.4	100.0
1977 . . .	50.5	26.6	.8	4.1	82.0	15.8	97.8	2.2	100.0
1978 . . .	46.2	24.3	.7	5.6	76.8	15.1	91.9	8.1	100.0
1979 . . .	43.3	23.0	.8	8.9	76.0	16.0	92.0	8.0	100.0
1980 . . .	41.3	24.3	.9	11.9	78.4	15.6	94.0	6.0	100.0
1981 . . .	38.2	24.3	1.0	14.2	77.7	17.0	94.7	5.3	100.0
1982 . . .	36.4	24.7	1.1	15.1	77.3	16.5	93.8	6.2	100.0

[a]1982 Preliminary. [b]Financial institutions other than PCA's that obtain funds from the FICB's. [c]Includes Small Business Administration farm loans estimated at $.3 bil., $1.7 bil., $2.4 bil., $2.6 bil., and $3.2 bil. for Jan. 1, 1978, 1979, 1980, 1981, and 1982 respectively.

same time in 1981. In contrast to last year, when many commercial banks experienced liquidity problems, most agricultural banks had an ample supply of funds throughout the year. Loan-to-deposit ratios were significantly lower than in 1980, and most bankers indicated ratios were lower than desired. Commercial banks lost market share primarily because high interest rates made it very difficult for them to compete with other agricultural lenders.

Production Credit Associations' (PCA's) non-real estate debt outstanding is expected to increase 13 percent in 1981, about the same rate of growth as 1980. Their market share should rise only slightly, to 24.7 percent.

Federal Intermediate Credit Banks' (FICB's) non-real estate debt outstanding rose by about 26 percent in 1981, slightly less than the 30 percent average annual rate of growth since 1970. This growth is due to the banks' being a source of relatively low cost funds for other financial institutions.

The FmHA share of total non-real estate debt is projected to rise about one percentage point to 15.1 percent. The non-real estate loans held by FmHA are expected to have grown 17 percent during 1981. Much of this growth has come from a forecast 25-percent increase in emergency disaster loans outstanding.

The six full-line farm machinery manufacturers surveyed increased their loans outstanding by 18 percent, much lower than last year's increase (table 7). Overall, outstanding non-real estate debt supplied by individuals and others (machinery dealers as well as other suppliers) is expected to have risen about 7 percent during the year—bringing their projected market share to 16.5 percent on January 1, 1982.

The Commodity Credit Corporation's (CCC) loans outstanding are projected to have increased about 31 percent this year. Low commodity prices and high interest rates have stimulated a strong demand for CCC loans. CCC's share of total non-real estate debt is expected to increase to 6.2 percent by year's end.

Interest Rates and Charges

Interest rates in 1981 have averaged higher than in 1980. The prime rate hovered around 19 to 20 percent most of the year, with only a moderate dip of about 2 points in March and April. However, the prime rate began to decline in September and will probably continue to trend downward through the second quarter of 1982.

Most farm interest rates have increased throughout the year. For example, in January, PCA and FLB rates

Table 6—Quality of farm loan portfolio[a]

Quality of portfolio	Change Mid-1980 to Mid-1981			Expected change Mid-1981 to Mid-1982		
	Increase	Decrease	Same	Increase	Decrease	Same
	Percent of banks reporting					
Rate of farm loan repayments	19	47	34	27	31	42
Rate of renewals and extensions	57	9	34	40	21	39
Rate of delinquencies 30 days and over	30	12	58	21	18	61
Rate of farm losses (charge offs)	15	8	77	17	14	69
Rate of refinancing (converted short-term debt into long term real estate secured loans)	61	5	34	46	14	40
Overall quality of farm loan portfolio	19	36	45	24	25	51

[a]Data were obtained in a survey conducted by the American Bankers Association (ABA) in August-September 1981.

averaged 12.9 percent and 10.6 percent, respectively. They increased to 15.7 percent and 11.8 percent, respectively in November.[1] FLB rates have risen more slowly because of the longer average maturity on outstanding FLB bonds. Also, FLB's charge a new loan fee which is not reflected in the stated rate.

Interest rates on loans from the Farmers Home Administration have come much closer to reflecting market interest rates in 1981. In November the FmHA operating and farm ownership loans were carrying rates of 14.5 percent and 13.25 percent, respectively.

CCC commodity loan rates on the 1980 crop were 11.5 percent throughout the year. Interest rates on the 1981 crop have held at 14.5 percent since CCC began making loans on this crop in April.

Interest charges on farm debt are expected to reach about $19 billion in 1981, an increase of 20 percent from 1980. Total interest charges consist of $8.5 billion on real estate debt and $10.4 billion on non-real estate debt. Although high interest rates have been important in the increase, the most significant factor is the growth in farm debt, which increased about 11.4 percent in 1981.

Interest rates for the farm sector are expected to decline through the first half of 1982. However, they will average about the same in 1982 as in 1981. This forecast depends mainly on when the economy turns around and begins to show some positive real growth. If the turn-around comes much later than midyear, 1982 rates could average lower than 1981.

Table 7—Loan funds supplied by six large full-line farm machinery manufacturers for retail purchases of farm machinery and equipment[a]

	Loans outstanding end of year	
	Million dollars	*Percent (1970=100)*
1970	1,170	100
1971	1,179	101
1972	1,499	128
1973	1,183	101
1974	1,160	99
1975	1,530	131
1976	2,192	187
1977	3,067	262
1978	3,131	268
1979	3,488	298
1980[b]	4,860	415
1981[c]	5,736	490
	Loans made during year	
	Million dollars	*Percent (1970=100)*
1970	928	100
1971	936	101
1972	1,329	143
1973	1,065	115
1974	876	94
1975	1,236	133
1976	1,915	206
1977	2,682	289
1978	2,661	287
1979	3,133	338
1980[b]	4,396	474
1981[c]	4,823	520

[a]Excludes loans estimated to have been made for nonfarm purposes. Years shown are company fiscal years: October 31 for 4 companies, December 31 for the other 2. Data, including estimates for 1981 and revisions, were provided by the six companies. [b]Revised. [c]Estimated.

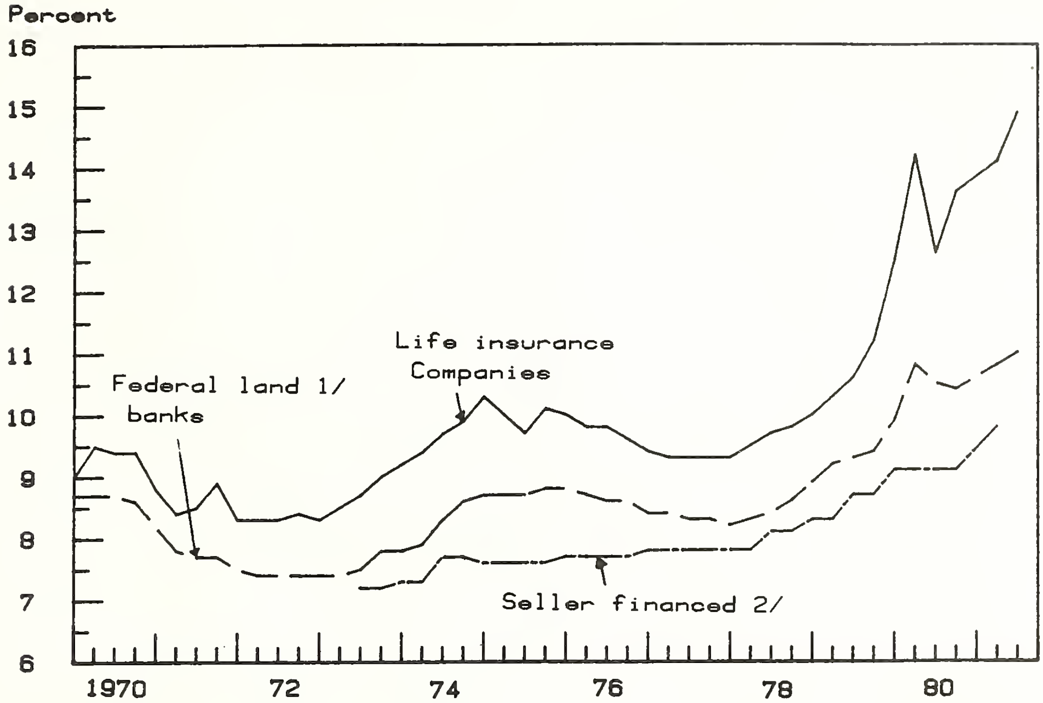
Federal Crop Insurance Expands

Insurance protection against unavoidable crop losses has been a part of USDA farm assistance programs since 1939. However, before the Federal Crop Insurance Act of 1980, availability of crop insurance was somewhat limited. Before 1981, crop insurance was available in 1,928 counties for 28 major insurable crops. By 1982, however, All-Risk Crop Insurance will be made available in at least 2,900 of the total of 3,000 agricultural counties in the United States.

Crop insurance is designed to become a primary form of Federal disaster protection for farmers. For 1982, crop

[1]Average percentage rates for these Farm Credit System lenders, however, would be higher than stated since rates do not reflect required stock purchases and loan fees.

Fig. 4 Interest Rates on Farm Real Estate Loans



Quarterly data for Life Insurance Companies: (new commitments) and Federal Land Banks (new Loans) semi-annual data for seller financed, annual data beginning in 1980. Latest rates are 14.9 for Life Insurance Companies in 2nd qtr. 1981, 11.8 for Federal Land Banks in November 1981 and 9.8 for seller financed in February 1981.

1/ Excludes cost of required stock purchases.

2/ Financing of the sale is provided by the previous owner of the farmland.

insurance will be available for all crops previously eligible for disaster payments under USDA farm programs: corn, wheat, cotton, grain sorghum, rice, and barley.

Crop insurance allows farmers to obtain insurance coverage on 50, 65, or 75 percent of average crop yields for a representative period of years and offers three price elections based on projected market prices. Crop insurance can be tailored to a farmer's individual yield history.

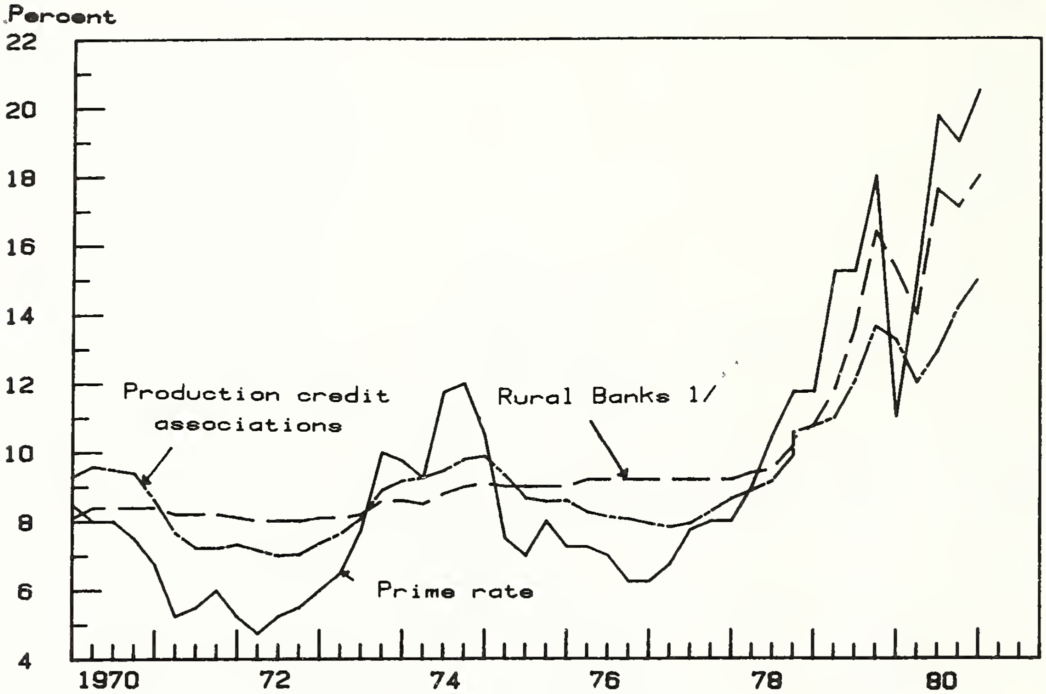
The Act of 1980 also expands the delivery system by which crop insurance is made available to farmers. Private insurance will now market and service Federal All-Risk Crop insurance. Information concerning private firms and agents eligible to sell this insurance will be available from county offices of the USDA Agricultural Stabilization and Conservation Service (ASCS).

FARM SECTOR INCOME, WEALTH, AND CASH FLOWS: 1982

Income

Net farm income in 1982 is expected to remain low in comparison to the levels achieved in 1978-79. Bumper crops in 1981 have created a pessimistic outlook for 1982 crop prices. In addition, recent declines in livestock prices have been a major factor in the decline in income. Projections suggest that net farm income in 1982 could be below that achieved in 1981. However, the forecasts for net farm income could improve significantly in the last half of 1982, depending in large part on growing conditions in 1982 and the level of export demand for U.S.

Fig. 5 Interest Rates on Nonreal Estate Farm Loans, and the Prime Rate charged by Banks



1/ Short-term production loans Minneapolis Federal Reserve District.

agricultural products. An improvement in the general economy would also help to strengthen the demand for agricultural products, especially the meats.

Cash receipts are expected to rise only moderately in 1982. Receipts from food and feed grains are expected to rise, with marketings from the 1981 record harvests more than offsetting the lower prices. Livestock receipts are also forecast to increase, since prices should show some improvement.

Production expenses should rise at a faster pace than cash receipts in 1982. Interest costs are forecast to rise substantially, while the cost increases for energy-based inputs such as fuel, fertilizer, and chemicals are expected to be more moderate. Combining the estimates of cash receipts and production expenses suggests that net cash income in nominal terms could decline further in 1982.

The real income of the farm sector—income adjusted for the purchasing power of the dollar—declined sharply from 1979 to 1981 (figure 6). A continued decline is expected in 1982.

Wealth

Farm sector wealth is an important measure of financial conditions in agriculture. Table 8 shows the preliminary January 1, 1982, and the forecast January 1, 1983, balance sheet for the farm sector. These estimates assume: a decline in nominal net farm income from 1981 to 1982, no growth in real GNP, a modest decline in the rate of inflation, a modest decline in the value of the dollar, and positive but low real interest rates.

Real estate assets are expected to increase in value by less than 10 percent, well below past high levels. Low net farm income is largely responsible for the slower growth in land values. In fact, the rate of increase in land values seems high in light of poor net income. Several factors help explain this outcome. First, as farm income levels decline, creating some softness in the land market, potential sellers become more reluctant to sell in what they view as a depressed market. This lowers the land available for sale, thereby stabilizing prices. Second, a significant number of sellers under land contract are willing to sell at rates below yields in other investment alternatives. That is, they compromise on rates, but not on price. Third, there continues to be a relatively strong demand for land by nonfarm investors and by those farmers with high off-farm incomes.

The value of livestock and poultry is expected to increase by about 15 percent by the end of 1982. Most of this increase reflects expected increases in the prices of livestock by yearend. Likewise, the value of crops stored on and off-farm is expected to rise. The value of machinery is expected to rise, but overall the demand for

Fig. 6. Net Farm Income in Nominal and Real Terms

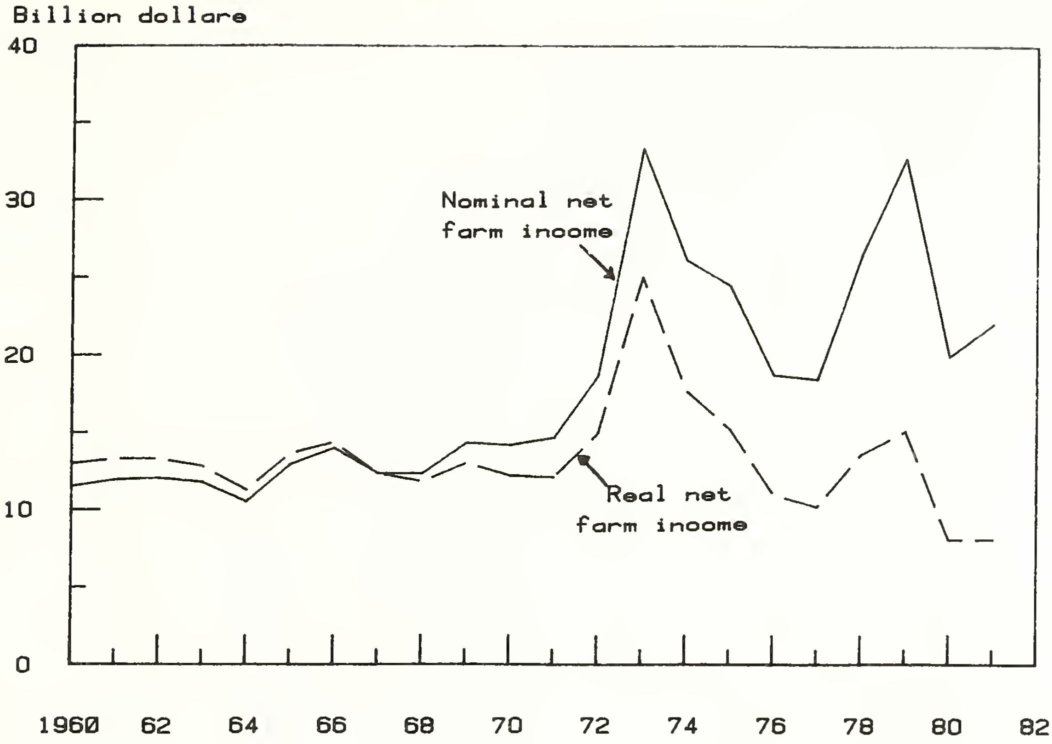


Table 8—Balance Sheet of the farming sector, 1982-1983

Items/Years (Jan. 1)	1982[a]	1983[b]	Percent change
		billion dollars	
Assets			
Physical assets			
Real Estate	895.0	982.7	9.8
Nonreal estate			
Livestock and poultry	63.0	72.9	15.7
Machinery and motor vehicles	109.5	118.3	8.0
Crop stored on and off-farm	42.8	47.7	11.5
Household equipment and furnishings	23.7	26.0	9.7
Financial assets			
Deposits and currency	16.6	17.3	4.2
U.S. Savings bonds and investment in cooperatives	25.9	28.5	9.9
TOTAL ASSETS	1,176.5	1,293.4	9.9
Claims			
Real Estate debt	103.4	111.7	8.0
Nonreal estate debt to:			
CCC	5.7	7.5	31.0
Others	85.4	94.8	11.0
Total liabilities	194.5	214.0	10.0
Proprietors equities	982.0	1,079.4	9.9
TOTAL CLAIMS	1,176.5	1,293.4	9.9

[a]Preliminary
[b]Forecast

Table 9—Cash sources and uses of funds for the farming sector, 1970-1982

	1970	1971	1972	1973	1974	1975	1976	1977[a]	1978	1979	1980	1981[b]	1982[b]
	Billion dollars												
Cash sources of funds:[c]													
Net cash income from farm and nonfarm sources[d]	37.6	38.9	46.9	65.0	65.1	60.3	63.5	55.7	69.1	77.2	76.5	77.8	80.0
Net flow of real estate loans	1.1	1.9	3.6	5.5	5.0	4.8	5.4	7.2	7.1	11.9	9.3	11.4	8.3
Net flow of nonreal estate loans[e]	1.2	2.4	3.1	4.3	3.2	4.2	5.6	6.0	8.9	10.7	7.5	7.2	9.4
Total cash sources of funds	39.9	43.3	53.6	74.8	73.3	69.3	74.5	68.9	85.1	99.8	93.3	96.4	97.7
Cash uses of funds:													
Purchases of machinery and motor vehicles	4.9	4.9	5.7	7.6	8.2	8.7	10.0	10.6	12.7	14.3	13.2	11.1	12.1
Capital improvement to real estate assets	2.4	2.5	2.4	3.1	4.4	4.7	5.0	5.8	6.9	6.7	6.9	6.9	7.0
Other capital purchases	2.2	3.2	4.1	3.7	2.7	2.3	3.0	3.9	5.4	3.8	5.0	4.4	5.9
Annual capital formation	9.5	10.6	12.2	14.4	15.3	15.7	18.0	20.9	23.6	24.8	25.1	22.4	25.0
Purchases of real estate from discontinuing proprietors	4.1	5.7	8.1	10.6	8.6	8.8	10.8	10.4	11.3	13.2	11.6	11.5	11.3
Total purchased capital	13.6	16.3	20.3	25.0	23.9	24.5	28.8	31.3	34.9	38.0	36.7	33.9	36.3
Other cash uses including personal consumption and nonfarm investment	26.3	27.0	33.3	49.8	49.4	44.8	45.7	37.6	50.2	61.8	56.6	62.5	61.4
Total cash uses of funds	39.9	43.3	53.6	74.8	73.3	69.3	74.5	68.9	85.1	99.8	93.3	96.4	97.7
Total purchased capital	13.6	16.3	20.3	25.0	23.9	24.5	28.8	31.3	34.9	38.0	36.7	33.9	36.3
Change in inventories	0.0	1.4	0.9	3.4	-1.6	3.4	-2.4	1.0	0.6	5.3	-2.0	5.0	-0.5
Total capital flow	13.6	17.7	21.2	28.4	22.3	27.9	26.5	32.3	35.5	43.3	34.7	38.9	35.8
Real dollar flows:													
Total net cash income/CPI	32.3	32.1	37.4	48.8	44.1	37.4	37.2	30.7	35.4	35.5	31.0	28.6	27.0
Personal consumption and other cash uses/CPI	22.6	22.3	26.6	37.4	33.4	27.8	26.8	20.8	25.7	28.4	22.9	23.0	20.8
	Percent												
Analytical ratios:													
Total purchased capital/Total net cash income	36.2	41.9	43.3	38.5	36.7	40.6	45.4	56.2	50.5	49.2	42.0	43.6	45.3
Total net flow of loans/Total purchased capital	16.9	26.4	33.0	39.2	34.3	36.8	38.2	42.2	45.8	59.5	45.8	54.9	48.8
Total net flow of loans/Total capital flow	16.9	24.3	31.6	34.5	36.8	32.3	41.5	40.9	45.1	52.2	48.4	47.8	49.4
Cash income/Total cash uses	94.2	89.8	87.5	86.9	88.8	87.0	85.2	86.8	81.2	77.4	82.0	80.7	81.9
End of year debt outstanding/Total cash income	145	152	139	114	126	150	162	214	197	205	228	250	268

[a]Changes in the definition of a "farm" starting in 1977 caused a significant reduction in the level of nonfarm income of farm firms. [b]Forecast. [c]Cash sources of funds from sale of real estate to the nonfarm sector are not included due to lack of data. [d]Does not include labor perquisites in calculation of production expenses before subtracting from gross cash income. [e]Does not include CCC loans. [f]Includes net additions to household furnishings, commercial bank deposits and currency savings bonds, equity in farmer cooperatives and purchases of breeding livestock.

machinery will probably remain sluggish as farmers postpone investments because of lower net farm income.

Financial assets of the farm sector are forecast to continue to grow more slowly than other assets or debt. The result is that an increasing proportion of farm sector assets are being held in a less liquid form. This suggests that proper management of credit—an alternative source of liquidity—is becoming a more essential component of farm financial management.

Farm debt is expected to continue to expand, but at rates well below those of some earlier years. Farm real estate debt outstanding is expected to increase by only 8 percent—well below the increases of past years. Reduced real estate transfers resulting from lower net farm income will likely reduce the need for borrowed funds.

Non-real estate debt is forecast to grow more rapidly than real estate debt, but it is not likely to grow as rapidly as in the past. A major exception is CCC loans, which are forecast to increase sharply. Overall, farm debt is expected to grow at about the same rate as asset values.

Nominal wealth of the farm sector is expected to continue to grow in 1982. While not expected, a continued reduction in the real wealth of the farm sector is possible. The major uncertainty appears to be the extent to which land values will hold up in the face of lower income.

Cash Flows

Estimates of cash flows for the years 1970-80 are presented in table 9. Also included are estimates for 1981 and 1982. Because of definitional changes in the number of farms, estimates prior to 1976 are not directly comparable to those for 1977 and after.

Total net cash income from farm and nonfarm sources in 1981 is estimated to be slightly higher than in 1980. A modest increase is also expected in 1982. Increases in debt are an additional source of cash, but the growth in debt in 1981 and 1982 is expected to remain well below the net increases recorded in 1979. Total cash sources of funds are expected to change very little from 1981 to 1982.

Annual capital formation—purchases of machinery and motor vehicles, capital improvements to real estate, and other capital purchases—is expected to bottom out in 1981 and increase modestly in 1982. But because of depressed incomes, real capital formation is expected to remain below that achieved in 1979. Likewise, purchases of real estate assets from discontinuing proprietors are down because of reduced net farm income.

When income and other cash uses are adjusted for inflation, it is apparent that real income and consumption fell sharply from 1979 through 1981. Continued sharp reductions are expected in 1982.

Analytical ratios at the bottom of table 9 suggest that farmers are holding the line on capital purchases in relation to total net cash income. The ratios of purchased capital to net cash income and the ratios of total net flow of loans to total capital flow are expected to be less in 1981 and 1982 than in 1979. This suggests that farmers are adapting to reduced net farm income by postponing or eliminating capital purchases.

Despite the slowdown in the rate of growth in debt, debt in relation to total cash income has continued to grow. Hence the burden of debt on income has increased rather sharply.

FARM TAXATION

The Economic Recovery Tax Act of 1981 should significantly reduce farm tax liabilities. Modifications in the income tax laws should provide greater incentives for savings and investment. Changes in the estate and gift tax laws will facilitate the transfer of farm estates from one generation to the next. The major provisions of the income tax laws which have been changed include those relating to personal and corporate marginal tax rates, qualified savings certificates, imputed interest rates, and the capital cost recovery system. Major estate and gift tax provisions modified include the unified estate and gift tax credit, the marital deduction, the annual gift tax exclusion, the estate and gift marginal tax rates, and the special use valuation provision.

Income Tax Provisions

Personal and Corporate Tax Rate Reductions

The new tax act phases in personal and corporate income tax rate reductions. Personal income tax rates have been reduced across the board by 1.25 percent in 1981, and will be reduced 10 percent by 1982, 19 percent by 1983, and 23 percent by 1984. In addition, effective in 1982 and later, the highest marginal tax rate will be reduced from 70 percent to 50 percent. This will reduce the maximum tax rate on long-term capital gains from 28 to 20 percent. A special provision allows for the application of this 20-percent rate to sales and exchanges which occurred after June 9, 1981. This special provision does not apply to corporations. The act also provides for indexing the income tax brackets, zero bracket amount, and personal exemption to changes in the Consumer Price Index, effective in 1985.

While the personal rate reductions were aimed at all income brackets, the corporate rate reductions were targeted at corporations in the two lowest brackets. In 1982 and 1983, corporate tax rates for the zero-to-$25,000 bracket will be reduced from the current 17 percent to 16 and 15 percent, respectively. The rate for the $25,000-to-$50,000 bracket will be reduced from 20 percent to 19 and 18 percent, respectively. The marginal tax rates for taxable corporate income over $50,000 will remain unchanged.

Qualified Savings Certificates

In order to stimulate private savings, the Economic Recovery Tax Act of 1981 provides for a one-time exclusion of up to $1,000 ($2,000 for a joint return) of interest income earned from 1-year depository institution savings certificates. Sales began on October 1, 1981. Certificates will continue to be issued until December 31, 1982, by banks, domestic building and loan associations, industrial loan associations, credit unions, and other savings institutions chartered and supervised under Federal or State law. These certificates must have a yield equal to 70 percent of the yield on 52-week Treasury bills and must be made available in denominations of $500. The redemption or other disposition of a certificate before the 1-year maturity date results in the taxation of all interest earned on the certificate. While the introduction of these tax-exempt savings certificates should provide a significant incentive for additional private savings, an important aspect of these certificates with respect to agriculture is the stipulation that savings institutions must invest 75 percent of the funds received from certificate sales in financing for housing or agricultural loans. Despite this stipulation, these certificats may result in only a slight increase in loanable funds to the farm sector.

Individual Retirement Accounts (IRA's) and Self-Employed (Keogh) Plans

Under prior law, annual contributions to an individual retirement account (IRA) were deductible up to the lesser of $1,500 or 15 percent of compensation (earned income). For 1982 and later, these deductible contribution limits will be increased to the lesser of $2,000 or 100 percent of compensation. In addition, the deductible limit for a spousal IRA will be increased in 1982 from $1,750 to $2,000, and the requirements that contributions under such a plan be equally divided between spouses will be eliminated. The new law also allows individuals who are participants in a qualified employer or Government plan to establish an IRA and deduct contributions to such a plan. However, total contributions to both plans may not exceed the maximum annual deduction limits discussed above.

The Economic Recovery Tax Act of 1981 also increased the maximum deductible contribution for self-employed (Keogh) retirement plans. Under prior law, self-employed individuals could deduct annual contributions of $7,500 or 15 percent of net earnings from self employment, whichever was less. Beginning in 1982, the contribution limit will be increased to $15,000. The 15 percent of net earnings limit will remain.

Imputed Interest Rates

The Internal Revenue Code requires that a minimum portion of payments under an installment sales contract be treated as interest rather than as part of the purchase price. Such treatment applies to all deferred payment contracts with a purchase price over $3,000 which provide that one or more of the payments are due more than 1 year from the date of sale. Prior to July 1, 1981, this unstated or imputed interest rate was 7 percent for contracts which provided for less than a 6-percent interest rate. On July 1, the Internal Revenue Service (IRS) increased this rate to 10 percent for contracts which provide for less than a 9-percent interest rate. The Economic Recovery Tax Act of 1981 imposes a maximum imputed interest rate of 7 percent on qualified land sales occurring after June 30, 1981. Qualified land sales are sales between family members not exceeding $500,000 per calendar year. This will allow farmers who wish to sell property to their children on an installment basis to provide for an interest rate of 6 percent, as opposed to 9 percent for unrelated individuals.

Accelerated Cost Recovery System

In an effort to minimize the decline in the real value of depreciation deductions caused by inflation, Congress adopted a modified capital cost recovery system which increases the investment tax credit and substantially shortens write-off periods. Generally, under this system farm machinery, equipment, and eligible livestock may be written off at an accelerated depreciation rate over a 5-year period and still be eligible for the full 10-percent investment credit. In addition, single-purpose agricultural structures may now be written off over a 5-year period and still receive the full 10-percent investment credit. Other agricultural structures may be written off over a 15-year period. Beginning in 1982, the accelerated cost recovery system also provides farmers the option to expense (immediately deduct) up to $5,000 of investment in machinery and equipment. This expensing option will be increased to $10,000 by 1986.

The overall impact of this system will be to allow farmers to recover capital outlays over a shorter period of time. This system, in combination with individual and corporate rate reductions, should lower the effective tax rate on the income generated by depreciable farm assets, resulting in greater incentives for investment in the farm sector.

Estate and Gift Tax Provisions

Over the last decade, farm groups have led the effort to reduce estate and gift taxes. Rising land values and expanding farm size have contributed to a significant increase in farm values, making farm estates increasingly subject to the estate tax, a disappointing and often frustrating experience for many farm heirs. The Economic Recovery Tax Act of 1981 substantially reduces estate and gift taxes and will facilitate the transfer of farms from one generation to another.

The Unified Credit

The unified credit establishes the amount of an estate's value which may be transferred free of tax. The credit is currently equal to $47,000, which allows the first $175,000 of an estate's value to be passed on tax-free. The new tax act of 1981 phases in increases in the credit from 1982 to 1987, as shown in table 10.

Table 10—Schedule for phasing in increases in the unified credit

Year	Credit	Exemption (amount which can be transferred tax-free)
	Dollars	
1982	62,800	225,000
1983	79,300	275,000
1984	96,300	325,000
1985	121,800	400,000
1986	155,800	500,000
1987	192,800	600,000

The Marital Deduction

The marital deduction currently allows the greater of $250,000 or half of the gross estate to pass to a spouse tax-free when the other spouse dies. The Economic Recovery Tax Act of 1981 provides for an unlimited marital deduction. For estates of those dying in 1982 and later, the surviving spouse can inherit the entire estate tax-free.

The Annual Gift Tax Exclusion

Individuals are currently allowed to exclude $3,000 annually, per recipient, in gifts. A husband and wife may jointly give $6,000 per year to each recipient tax-free. The new tax bill increases the annual gift tax exclusion for each individual to $10,000 per recipient and $20,000 per recipient for split gifts made by spouses. The new tax bill also exempts from the gift tax those amounts paid for certain medical expenses and school tuition.

Estate and Gift Marginal Tax Rates

Under current estate and gift tax law, the marginal tax rates range from 18 percent for taxable estate values of $10,000 and less to 70 percent for portions of estates exceeding $5 million in value. The tax bill will phase in a reduction in the highest marginal tax rate from 70 to 50 percent between 1982 and 1985. Beginning in 1985, the portion of an estate's taxable value which exceeds $2.5 million will be taxed at 50 percent.

Special Use Valuation - Section 2032A Property

Section 2032A of the Internal Revenue Code provides for valuing certain farm and closely held business property at its current use value rather than at its fair market value. The new tax bill both expands the benefits available under this provision and attempts to clear up technical and administrative problems which have prevented some farmers from qualifying for special use valuation.

Prior to the new law, an estate's value could be reduced by up to $500,000 under Section 2032A. The Economic Recovery Tax Act of 1981 increases the maximum reduction in the fair market value of an estate allowable under section 2032A to $600,000 for estates of those dying in 1981, $700,000 for estates of those dying in 1982, and $750,000 for estates of those dying in 1983 and later.

The new law also permits the use of net share rentals in the basic formula for determining current use value. Currently, the formula for determining use value requires comparable cash rental data from the farm's locality. This requirement has precluded many who live in areas where no cash rental data are available from receiving the special valuation under this formula, forcing them to use an alternative formula which does not usually yield as beneficial results. Including share rentals in the first formula will increase the benefits accruing to farmers under the special use valuation law.

In addition, the Economic Recovery Tax Act of 1981 reduces the special use valuation's recapture period from 15 to 10 years. The recapture period is that period of time following the decedent's death during which the heir must meet the special use valuation requirements. Failure to meet these requirements during this period triggers the recapture of the tax savings from use valuation.

Several technical changes which the new tax act has made in the special use valuation law relax the restrictions of the law. In general, farmers should find it easier to qualify for special use valuation, and some can expect greater benefits than they would have received without the changes.

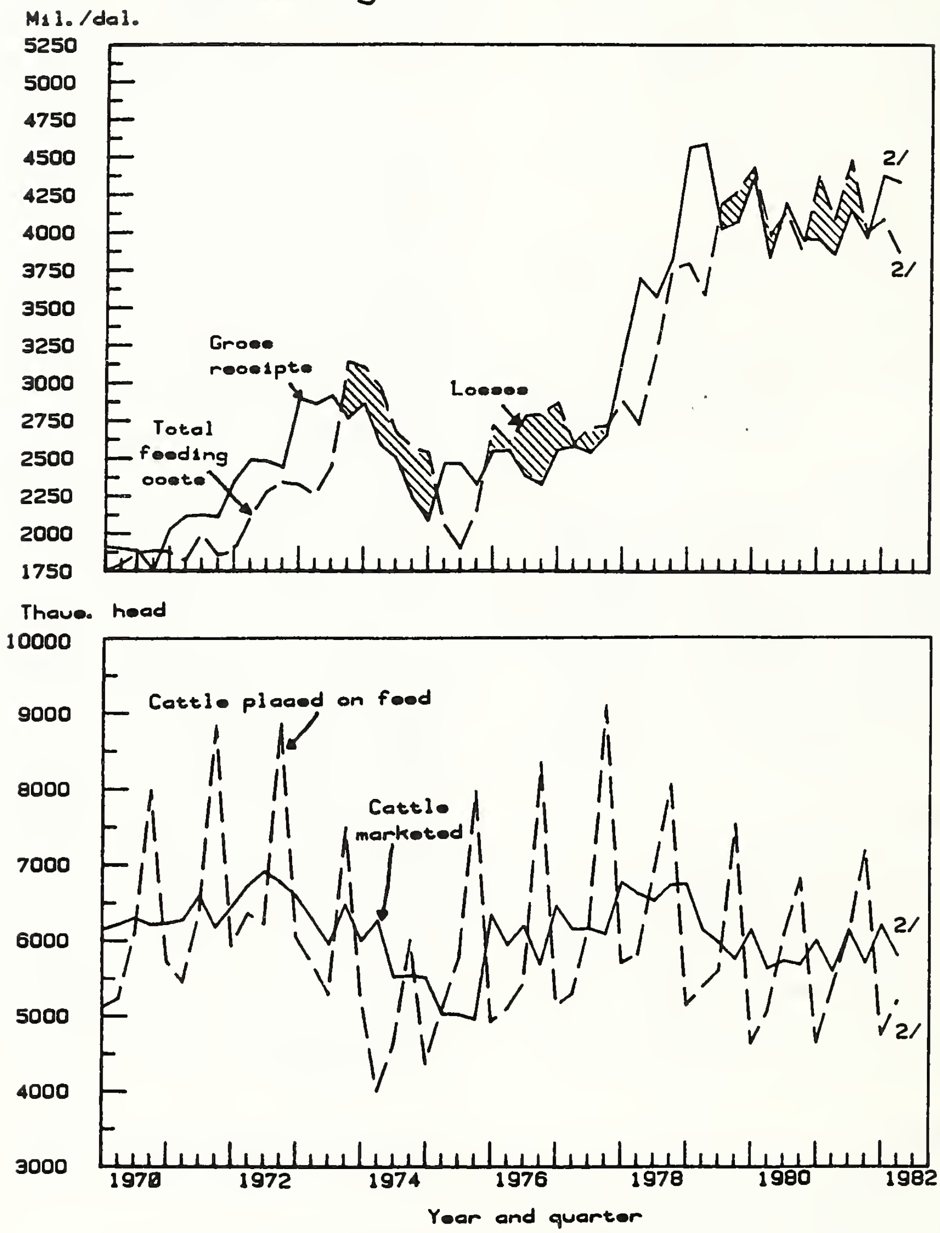
The Economic Recovery Tax Act of 1981 also changed the rules for installment payment of estate taxes, material participation, the definition of "family member," election requirements, the rules for woodlands, the basis of property on which a recapture tax is paid, transfers within 3 years of death, and others. These changes will facilitate the transfer of farm estates from generation to generation by relaxing the qualifying requirements for various special rules and by reducing general administrative problems.

TYPE OF FARM

This section describes the current and prospective financial condition of the major types of farms in the United States. The number and location of these units are shown in table 11 and on the accompanying maps. The number of farms and distributional information in the table are from the 1978 Census of Agriculture, the latest available.

Information helpful in the preparation of this section was obtained through surveys of commercial banks conducted by the American Bankers Association, the Farmers Home Administration, Federal Reserve District Banks, State Agricultural Extension Service economists, and major life insurance companies. All of the reported information was used in analyzing the financial conditions for 1981 and the outlook for 1982 for the major types of farms.

Fig. 7 Cattle Feeding: Gross Receipts, Total Feeding Costs, Profits and Losses, Cattle Placed on Feed and Marketings, 23 States, 1970-82 1/



1/ Based on model specification by Bruce Hottel and Rod Martin (see LMS-209, USDA, June 1976).
2/ Preliminary.

Table 11—Numbers and characteristics of farm types, U.S. 1978 Census of Agriculture

Type of farm[a]	Number of farms		Value of farm products produced	Value of land and buildings, Dec. 31, 1979	Farms with value or farm products sold of $40,000 or more	
	Thousands	Percent distribution	Percent distribution	Percent distribution	Percent of farm numbers within each type	Percent of total product sales within each type
Cash grain	593.3	24.0	22.8	36.2	30.9	67.9
Livestock[b]	1,036.6	41.9	34.5	35.3	14.9	72.5
Dairy	168.5	6.8	11.6	6.8	61.2	72.0
Tobacco	142.6	5.7	2.2	2.1	10.1	42.4
Fruit and nut[c]. . . .	122.6	4.9	6.9	4.5	22.2	88.4
Poultry and egg . . .	51.2	2.1	8.2	1.1	67.6	95.8
Cotton	32.1	1.3	2.8	2.6	47.7	90.4
Vegetable	35.4	1.4	2.9	1.5	20.9	89.7
Other[d]	294.0	11.9	8.1	9.9	15.6	62.3
All types	2,476.3	100.0	100.0	100.0	—	—

[a]The type of farm classification indicates that a particular product or group of products amounts to 50 percent or more of the total value of all farm products sold during 1978. [b]Livestock farms in 1978 consisted of 662 thousand beef cattle (except feedlots); 87 thousand beef cattle feedlots; 193 thousand hogs; 23 thousand sheep and goats and 72 thousand general livestock (except dairy, poultry and animal specialties). [c]Includes 24 thousand horticultural specialty farms. [d]Includes general farms, animal specialty and other field crop farms such as sugar, Irish potato, hog and peanut.

LIVESTOCK FARMS

Cattle Feeding Outlook for 1982

The financial outlook for cattle feeders through 1982 appears to be somewhat better than during 1981 (figure 7). Lower feedlot inventories during late 1981 suggest tighter fed beef supplies into early 1982, accompanied by moderately higher beef prices. However, adequate supplies of feeder cattle, less expensive grain, and the possibility of improved profit margins into 1982 may encourage feeders to place greater numbers of cattle on feed. A sluggish economy and continued large supplies of competing meats will tend to hold down increases in cattle prices. Current projections for Choice steers at Omaha during the first two quarters of 1982 range from $64 to $67 per cwt. Average prices for Choice steers during the same period in 1981 were near $64.50 per cwt.

The average losses or low profit levels in cattle feeding during recent years have resulted in a general downward adjustment in feedlot placements since 1978 (table 12). This, plus lower calf prices and only moderately increasing feed costs, has resulted in a reduction in the use of debt capital by the cattle feeding industry.

1981 Financial Conditions

Cattle feeders experienced substantial losses on fed cattle marketed during 1981, mainly because of lower prices, higher feed costs and higher interest rates (figure 7). Burdensome supplies of overweight cattle in late 1980 and early 1981 created large price discounts. Also, drought conditions during 1980 and early 1981 resulted in movement of greater numbers of cattle off pasture to slaughter than in recent years, increasing beef supplies and further depressing cattle prices. In addition, competition from abundant pork and poultry supplies throughout 1981 has kept cattle prices near or below year-earlier levels.

Cow-Calf (Cattle Raising) Outlook for 1982

Despite lower net earnings for 1981 as compared to 1980, a buildup in herd sizes continues. The January 1, 1982, estimate for cow number inventory of 51.0 million is about 3 percent larger than a year earlier. Equity positions for most cattle producers remain strong, and lenders indicate that producers' repayment ability should be stronger in 1982 than in 1981.

Prices for yearling-feeder cattle are likely to hold near those for fed cattle through early 1982. The latter are currently projected through the first 2 quarters of 1982 at $64 to $67 per cwt. Continued high interest rates, uncertainty about future fed cattle prices, and recent feedlot losses will hold down feeder cattle price gains. In most parts of the country, pasture and range feed conditions in late 1981 were favorable for cattle raisers and substantially better than the year before. Moisture conditions in late 1981 were also favorable for wheat-grazing through early 1982. However, late feeder cattle movements and high interest rates are forcing wheat-grazing stocker operations to be more cautious this winter than last.

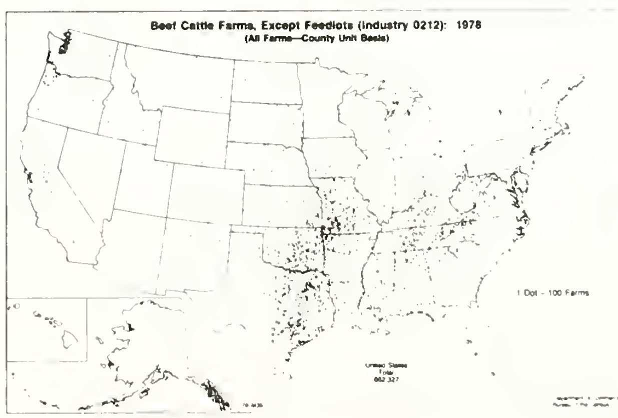


Table 12—Cattle Feeding: Total operating debt, operating funds borrowed and repaid, 23 states, 1970-1982[a]

Year and quarter	Cattle placed on feed	Operating funds borrowed[b]	Operating funds repaid[b]	Total operating debt outstanding[b]	Change in operating debt outstanding[b]
	Thousand head		*Million dollars*		
1970 - 1st	5,119	1,159	1,300	2,451	-140
2nd	5,241	1,145	1,333	2,263	-187
3rd	6,088	1,346	1,370	2,239	-23
4th	8,000	1,753	1,393	2,599	360
1971 - 1st	5,734	1,363	1,404	2,558	-40
2nd	5,454	1,210	1,382	2,386	-171
3rd	6,371	1,364	1,486	2,263	-121
4th	8,842	1,962	1,374	2,852	588
1972 - 1st	5,932	1,456	1,383	2,924	72
2nd	6,364	1,581	1,549	2,956	32
3rd	6,223	1,597	1,658	2,895	-60
4th	8,862	2,392	1,707	3,580	685
1973 - 1st	6,039	1,861	1,694	3,747	167
2nd	5,696	2,101	1,735	4,112	366
3rd	5,282	2,121	1,885	4,349	236
4th	7,491	2,821	2,464	4,706	357
1974 - 1st	5,241	1,963	2,446	4,222	-483
2nd	4,008	1,186	2,371	3,037	-1,184
3rd	4,626	1,315	1,873	2,479	-579
4th	6,005	1,576	1,616	2,439	-39
1975 - 1st	4,366	1,063	1,595	1,907	-532
2nd	5,097	1,345	1,295	1,956	50
3rd	5,772	1,535	1,192	2,299	343
4th	7,975	2,287	1,353	3,233	934
1976 - 1st	4,916	1,508	1,749	2,992	-240
2nd	5,095	1,708	1,762	2,938	-53
3rd	5,428	1,644	1,888	2,694	-243
4th	8,350	2,386	1,894	3,186	492
1977 - 1st	5,133	1,509	1,948	2,747	-438
2nd	5,295	1,617	1,760	2,604	-142
3rd	6,187	1,811	1,836	2,579	-23
4th	9,102	2,583	1,839	3,324	744
1978 - 1st	5,701	1,842	1,954	3,211	-111
2nd	5,824	2,182	1,849	3,545	334
3rd	6,946	2,666	2,148	4,063	518
4th	8,064	3,118	2,548	4,633	570
1979 - 1st	5,140	2,410	2,566	4,477	-155
2nd	5,380	2,733	2,424	4,786	309
3rd	5,604	2,729	2,821	4,694	-91
4th	7,531	3,506	2,874	5,326	632
1980 - 1st	4,635	2,233	2,975	4,584	-741
2nd	5,062	2,323	2,664	4,243	-340
3rd	6,060	2,926	2,762	4,407	164
4th	6,817	2,731	2,575	4,563	156
1981 - 1st	4,652	1,957	2,844	3,676	-886
2nd	5,395	2,204	2,353	3,527	-148
3rd	6,100	2,249	2,569	3,208	-318
4th[c]	7,199	2,744	2,290	3,662	454
1982 - 1st[c]	4,750	1,816	2,339	3,139	-522
2nd[c]	5,199	2,100	2,210	3,029	-109

[a]Based on model specification by Bruce Hottel and Rod Martin (see LMS-209, ERS, USDA, June 1976). [b]Operating funds are for calf purchases, and feeding expenses on borrowed money. [c]Projected.

Table 13—Average per farm level of debt, equity, and returns on U.S. livestock ranches[a]

		Year									
		1970	1973	1974	1975	1976	1977	1978	1979	1980	1981[e]
		Average per farm									
Small farms[b]											
Assets	($)	125,141	161,645	198,377	202,827	230,520	268,710	305,649	363,161	410,476	445,255
Debt	($)	10,240	12,842	14,841	16,508	18,311	20,488	23,141	26,296	30,818	34,211
Equity	($)	114,901	148,803	183,536	186,319	212,209	242,320	282,508	336,865	379,658	411,044
Debt/Assets[c]	(%)	8.2	7.9	7.5	8.1	7.9	7.6	7.6	7.2	7.5	7.7
Total net return[d]	($)	1,373	3,460	-133	-2,029	-2,302	-2,504	91	3,787	1,107	-761
Net return to equity	($)	-2,078	-834	-4,928	-7,147	-7,756	-8,215	-6,028	-2,943	-6,428	-8,971
Rate of return to equity	(%)	-1.8	-0.6	-2.7	-3.7	-3.7	-3.4	-2.1	-0.9	-1.7	-2.2
Medium farms[b]											
Assets	($)	345,719	449,019	545,960	558,214	632,448	735,640	838,550	1,000,204	1,126,134	1,218,646
Debt	($)	43,261	54,311	62,764	69,791	77,427	86,688	97,921	111,365	130,532	144,892
Equity	($)	302,457	394,708	493,196	488,423	555,021	648,952	740,629	888,839	995,602	1,073,754
Debt/Assets[c]	(%)	12.5	12.1	11.5	12.5	12.2	11.8	11.7	11.1	11.6	11.9
Total net return[d]	($)	4,989	15,273	1,869	-6,381	-7,104	-7,747	3,911	18,050	7,985	798
Net return to equity	($)	340	9,031	-4,969	-13,432	-14,662	-15,570	-4,695	8,608	-2,363	-10,366
Rate of return to equity	(%)	0.1	2.3	-1.0	-2.7	-2.6	-2.4	-0.6	1.0	-0.2	-1.0
Large farms[b]											
Assets	($)	1,766,083	2,316,657	2,780,407	2,831,846	3,194,458	3,709,531	4,256,001	5,103,658	5,716,943	6,160,691
Debt	($)	355,946	452,230	522,522	578,749	643,657	725,157	819,828	940,988	1,104,689	1,224,961
Equity	($)	1,410,137	1,864,427	2,257,885	2,253,097	2,550,801	2,984,374	3,436,173	4,162,670	4,612,254	4,935,730
Debt/Assets[c]	(%)	20.2	19.5	18.8	20.4	20.2	19.6	19.3	18.4	19.3	19.9
Total net return[d]	($)	38,447	152,538	-31,544	-137,514	-153,293	-171,635	-20,134	163,382	16,668	-93,437
Net return to equity	($)	23,168	131,244	-54,670	-160,964	-178,503	-197,579	-49,047	131,709	-17,694	-130,323
Rate of return to equity	(%)	1.6	7.0	-2.4	-7.1	-7.0	-6.6	-1.4	3.2	-0.4	-0.3

[a]Includes ranches in the 17 Western States, Louisiana, Florida, Hawaii, and Alaska, where sales of livestock represent 50 percent or more of farm cash receipts, and pastureland was at least 100 acres and at least 10 times greater than acres of cropland harvested. [b]Based on data from the 1970 Farm Finance Survey, U.S. Census of Agriculture, but updated to reflect changes in the value and income from farm assets (market value basis). Small farms are those with annual cash farm receipts from $5,000 to $9,999 in 1970; medium farms from $20,000 to $39,999 in 1970 and large farms of $100,000 and greater. In 1970, the distribution of farm numbers and cash receipts on livestock ranches by the value of cash receipts was:

	Farm no. (%)	Farm cash receipts (%)
$100,000 +	5	57
$ 40,000 - 99,999	9	16
20,000 - 39,999	13	11
$ 10,000 - 19,999	17	7
$ 5,000 - 9,999	24	5
$ 2,500 - 4,999	32	4

[c]Dollars of farm debt for each $100 of farm asset value. [d]Net returns to equity, operator labor, and management. [e]Preliminary.

1981 Financial Conditions

Nineteen eighty-one was expected to be a favorable year for cattle raisers, but these optimistic expectations did not materialize. Drought conditions from mid 1980 through May 1981 forced larger-than-normal numbers of cattle off pasture to slaughter, and unprofitable feedlot margins during 1981 contributed to price discounts for feeder calves. Prices for 600-700 pound Choice feeders at Kansas City declined steadily from nearly $73 per cwt. in January to $60 in late 1981. Calf prices for the year will average around 10 to 15 percent below 1980. As a whole, 1981 will be the second year of deteriorating financial conditions for cattle raisers (table 12).

Hog Outlook for 1982

Pork production into 1982 will be boosted above earlier expectations by improvements in producers' net income during the last half of 1981. Pork production in the first half of 1982 is expected to be higher and prices may be lower than predicted last summer. Hog prices in the first quarter of 1982 are still expected to average $41 to $45 per cwt., which would be about $2 per cwt. above 1981. Feeding margins will continue to be boosted by relatively favorable feed grain and soybean meal prices. Financial conditions of hog producers in 1982 are expected to improve slightly over those of 1981. Minimal positive returns above cash costs will result from lower feed prices, but may give little encouragement for additional expansion in breeding herds. Producers will likely maintain or rebuild herd sizes slightly during early 1982. As of September 1981, producers' intentions were to have only 1 percent fewer sows farrow during December 1981-February 1982 than a year earlier.

1981 Financial Conditions

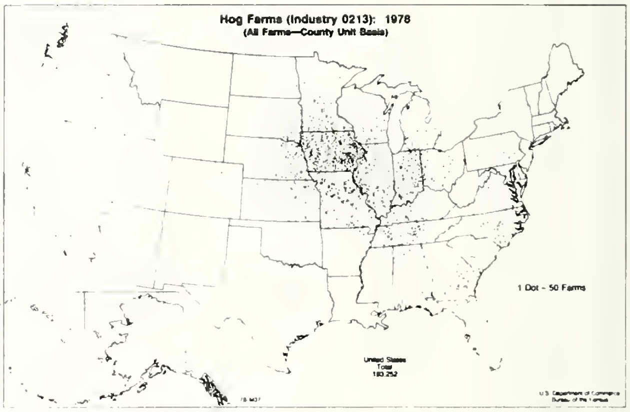
Liquidation of the breeding inventory, which began in late 1979 and continued through 1981, began to slow in mid-1981 because of improvements in producers' net returns. Hog prices for 1981, at $45 per cwt., are expected to average $5 per cwt. more than in 1980, and lower corn and soybean meal prices have contributed further to improved feeding margins.

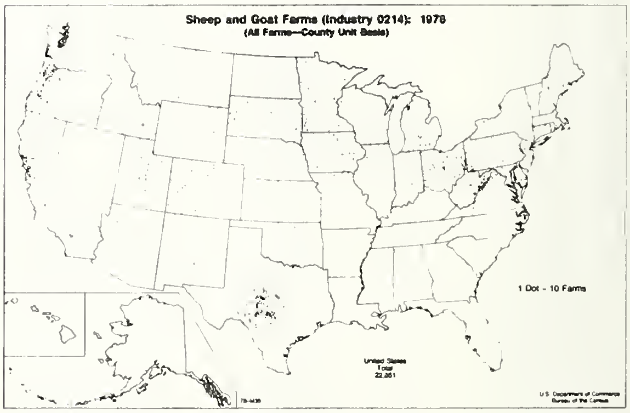
Sheep and Lamb Outlook for 1982

The financial outlook for sheep and lamb producers is expected to continue to be somewhat unfavorable. Choice lamb prices at San Angelo during the first quarter of 1982 are projected to average between $51 and $54 per cwt., about 8 percent less than the year before. An 8 percent greater lamb crop during 1981 and increased commercial slaughter rates through early 1982 will continue to place downward pressure on lamb prices. However, most sheep and lamb producers have favorable equity positions and will be able to obtain adequate financing for production. Problems with predators and obtaining adequate labor for sheep operations will continue to plague producers.

1981 Financial Conditions

The overall financial condition for sheep and lamb producers deteriorated to some extent during 1981. An anticipated 5 to 10 percent increase in lamb slaughter over the year before and relatively stable demand will result in lamb prices for the year averaging about 12 percent less than in 1980.





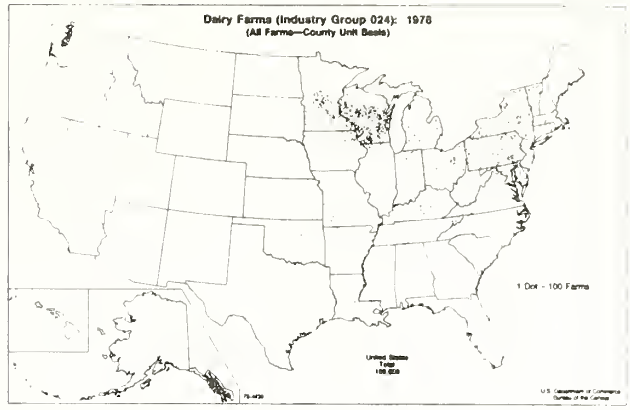
DAIRY OUTLOOK FOR 1982

Financial conditions during 1982 for dairy farmers may not be as strong when compared with 1981. There may be some downward adjustments in milk production, but little increase in farm milk prices. The production expansion which began in mid-1979 and continues now will likely end next year because government price supports will remain at levels set during 1980. The support level of $13.10 a cwt., set on October 1, 1980 will remain in effect until October 1, 1982, and then may increase only 15 cents. Government purchases under the price support program will probably continue to be heavy in 1982—although purchases could slow late in the year if production adjustments occur.

1981 Financial Conditions

Nineteen eighty-one has been a relatively strong financial year for most dairy farmers. Some gain in prices for milk and cheaper grain prices have continued to hold producers' net income near favorable levels of 1980, stimulating increased milk production (table 14). Output of milk during 1981 will increase an estimated 3 percent—following a 4-percent increase during 1980. Larger production for 1981 is due to about a 1-percent increase in the dairy herd and about a 2-percent increase in production per cow.

A second year of abundant milk production has led to continued market adjustment problems and a second year of heavy Government purchases. Government purchases, the vehicle by which manufactured grade milk prices are supported, were 12.2 billion pounds (milk equivalent) for the first 11 months of 1981, compared with 8.2 billion pounds during the same period of 1980—and were about 10 percent of estimated farm marketings.



POULTRY OUTLOOK FOR 1982

The financial outlook in 1982 is unfavorable through the first half for broiler and turkey producers, but it may improve if the economy improves in the second half of the year. Egg producers should enjoy favorable financial conditions all year.

With continued pinched consumer budgets through the first half of 1982, broiler prices are expected to continue weak. Grain prices reduced from last year's high levels will help lower costs of production, but non-feed production costs are expected to continue rising and are likely to keep costs above gross receipts.

Egg producers' net returns should remain favorable during 1982 if producers continue trimming output slightly, as they did early in the fourth quarter of 1981. Production in 1982 will likely be 1 to 2 percent below 1981, unless force-molting is more widely used.

Turkey producers are expected to receive low prices in the first half of 1982 unless stocks of frozen turkeys can be reduced to normal maintenance levels by the beginning of the year. Producers are already reducing production for next year. Returns could improve as the economy picks up in the second half of 1982 and prices strengthen seasonally.

1981 Financial Conditions

Broiler producers' net returns were negative during 1981. Prices improved from the low levels of 1980, but costs were higher, especially feed costs, early in 1981. Producers usually realize higher prices and profitable returns when pork production declines, but increased broiler production during 1981 held total meat supplies up and limited further price gains. The economy also was very sluggish, keeping consumers' budgets tight.

Egg producers were in an unfavorable financial situation during most of 1981, although egg prices stayed well above 1980 levels. High feed costs during the first 3 quarters pushed total costs above breakeven. As feed costs declined in the fourth quarter and prices strengthened seasonally, net returns improved. The long period of reduced returns has caused producers to cut the number of replacement pullets entering the flock, which may limit egg output in the year ahead. The percentage of the flock that has been force-molted in order to continue egg production is at record levels.

Turkey production was profitable only in the second quarter of 1981. High feeding costs hurt net income levels in the first half, and record levels of frozen turkeys plus increased output weakened prices during the rest of 1981.

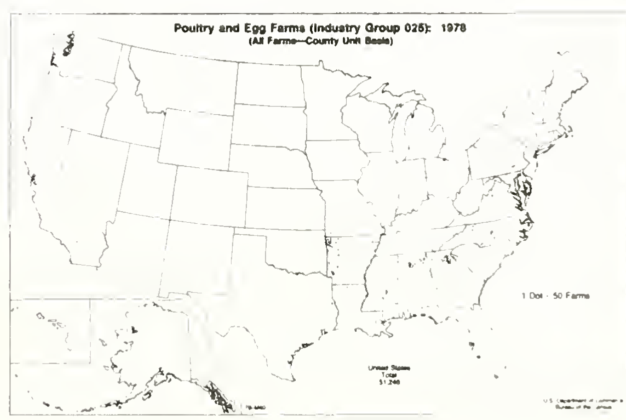


Table 14—Average per farm level of debt, equity, and returns on U.S. dairy farms[a]

		Year									
		1970	1973	1974	1975	1976	1977	1978	1979	1980	1981[e]
		Average per farm									
Small farms[b]											
Assets	($)	42,606	54,711	65,504	67,772	76,940	88,214	99,880	117,754	132,097	143,519
Debt	($)	5,879	7,450	8,608	9,542	10,607	11,935	13,490	15,455	18,135	20,117
Equity	($)	36,726	47,261	56,896	58,230	66,333	76,279	86,390	102,299	113,962	123,402
Debt/Assets[c]	(%)	13.8	13.6	13.1	14.1	13.8	13.5	13.5	13.1	13.7	14.0
Total net return[d]	($)	3,356	3,653	2,779	3,271	4,478	5,058	5,740	6,615	6,663	6,825
Net return to equity	($)	-497	-1,209	-2,630	-2,466	-1,642	-1,343	-1,146	-954	-1,778	-2,355
Rate of return to equity	(%)	-1.4	-2.6	-4.6	-4.2	-2.5	-1.8	-1.3	-0.9	-1.6	-1.9
Medium farms[b]											
Assets	($)	112,397	144,311	173,290	180,108	204,436	234,213	265,021	312,255	350,706	381,424
Debt	($)	27,612	34,847	40,269	44,699	49,644	55,735	62,981	71,921	84,344	93,597
Equity	($)	84,784	109,464	133,021	135,409	154,792	178,478	202,431	240,334	266,362	287,827
Debt/Assets[c]	(%)	24.6	24.1	23.2	24.8	24.3	23.8	23.8	23.0	24.1	24.5
Total net return[d]	($)	10,767	10,447	8,279	9,830	14,114	15,882	18,033	21,201	21,169	21,424
Net return to equity	($)	4,585	2,223	-752	479	4,097	5,491	6,648	8,706	7,438	6,594
Rate of return to equity	(%)	5.4	2.0	-0.6	0.4	2.7	3.1	3.3	3.6	2.8	2.3
Large farms[b]											
Assets	($)	507,805	657,020	786,772	803,288	916,051	1,057,106	1,203,122	1,428,912	1,521,742	1,741,234
Debt	($)	146,079	185,632	214,485	237,549	264,202	297,688	336,558	386,359	453,519	502,960
Equity	($)	361,726	471,388	572,287	565,739	651,849	759,418	866,564	1,042,553	1,068,223	1,238,274
Debt/Assets	(%)	28.8	28.3	27.3	29.6	28.8	28.2	28.0	27.0	29.8	28.9
Total net return[d]	($)	43,263	28,631	1,037	11,363	43,354	58,873	69,478	87,329	78,148	72,802
Net return to equity	($)	25,961	5,210	-24,575	-14,951	15,130	29,674	37,291	52,024	39,542	31,198
Rate of return to equity	(%)	7.2	1.1	-4.3	-2.6	2.3	3.9	4.3	5.0	3.7	2.5

[a]Farms with dairy products accounting for more than 30 percent of value of products sold. [b]Based on data from the 1970 Farm Finance Survey, U.S. Census of Agriculture, but updated to reflect changes in the value and income from farm assets. Small farms are those with annual cash farm receipts from $5,000 to $9,999; medium farms from $20,000 to $39,999 and large farms of $100,000 and greater. In 1970, the distribution of farm numbers and cash receipts on dairy farms by the value of cash receipts was:

	Farm no. (%)	Farm cash receipts (%)
$100,000 +	2	16
$ 40,000 - 99,999	12	26
$ 20,000 - 39,999	32	35
$ 10,000 - 19,999	29	17
$ 5,000 - 9,999	17	5
$ 2,500 - 4,999	8	1

[c]Dollars of farm debt for each $100 of farm asset value. [d]Net returns to equity, operator labor, and management. [e]Preliminary.

Cash Grain Outlook for 1982

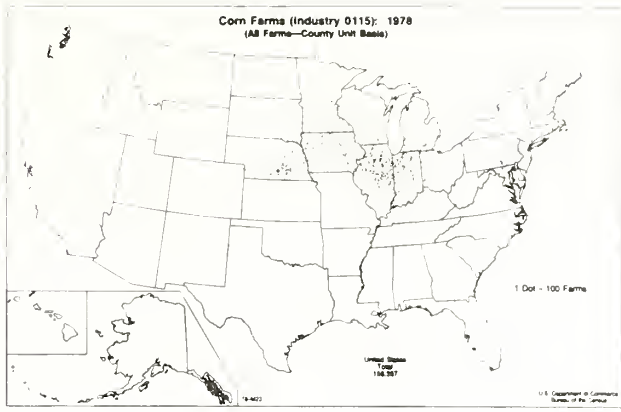
Cash grain farmers can expect a difficult year in 1982. Prices received probably will not keep pace with the rise in production expenses. This pessimistic forecast is due to 1981 bumper crops of corn and wheat and increased world production of rice expected in 1982. Most respondents to the farm credit surveys expect 1982 net farm earnings to be the same as or lower than in 1981. The same can be said for their expectations regarding borrower repayment ability.

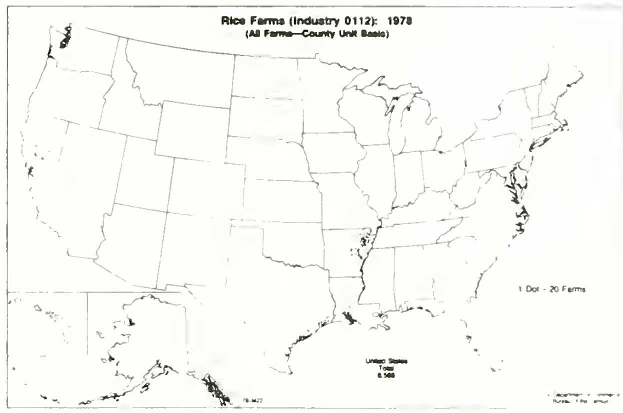
1981 Financial Conditions

During 1981 grain farmers were plagued with persistently high interest rates and the second consecutive year of low farm income. Many farmers have experienced a severe cash-flow squeeze as production expenses outpace cash receipts.

Farmers have responded to these adverse conditions by postponing the purchase of machinery and equipment. Most lenders report an increase in loan renewals and delinquencies as well as a decline in the rate of loan repayments.

Most respondents to the farm credit survey indicated that grain farmers' net worth had either remained the same or declined during 1981. It appears that loan repayment ability has also declined for many grain farmers.





Corn

Corn prices at the farm are expected to average $2.45 to $2.70 per bushel in 1981/82, down from $3.10 in 1980/81, when production and supply were at reduced levels.

The 1981 corn crop is forecast at a record 8.1 billion bushels. Planted acreage was 84.3 million up slightly from 84.1 million. Yield per harvested acre was 109 bushels, up sharply from the 91 bushels in 1980, when weather conditions were hot and dry.

As a result of the record production, corn supply for 1981/82 rose to 9.1 billion bushels, 10 percent above 1980/81. Total use of corn in 1981/82 is likely to be around 7.4 billion bushels. Domestic use will likely be up about 4 percent. Food, seed, and industrial uses are expected to increase about 9 percent to around 800 million bushels, due mainly to increased use of corn for high fructose syrup and gasohol. Feed use is projected at about 4.25 billion bushels, up from 4.11 billion in 1980/81. Exports are projected at 2.375 billion bushels, about the same as last year. Disappearance at these levels would leave carryover stocks on October 1, 1982, at slightly over 1.7 billion bushels, 65 percent above a year earlier.

The U.S. average cost of producing corn in 1981 is projected at $2.38 per bushel, excluding land costs. This estimate is based on a yield of 109 bushels per harvested acre. This compares with the $2.36 preliminary estimate for 1980, when the yield was estimated at 90.5 bushels. Land costs are projected at $0.73 per bushel based on acquisition costs and $1.48 based on current costs. These projections compare with 1980 preliminary estimates of $0.71 and $1.58 respectively. Average renter cost of producing corn in 1981 is projected at $3.44 per bushel, compared with the preliminary estimate of $3.28 for 1980.

Rice

Rice yields for 1981 increased 11 percent from 1980, with a total harvest of 183 million cwt. from 3.7 million acres, compared with 1980's 145 million cwt. from 3.3 million acres. Beginning stocks for 1981/82 are down 9 million cwt. from 1980/81 levels. However, total supplies for 1981/82, at 199 million cwt., are up 28 million cwt. Disappearance is expected to total 142 million cwt., or 3 percent less than in 1980/81. Domestic use will total 57 million cwt., up slightly from last year, while exports are projected to be 85 million cwt., moderately down from 1980/81's record 91 million cwt.

Average farm price for 1981/82 is projected to be down from 1980/81, reflecting large world supplies and the record U.S. crop. World rice production will be a record 410 million tons, 4 percent above the record set in 1980/81. Because of excellent world crop prospects, international rice trade in calendar 1982 is expected to be down 10 percent from 1981.

Table 15—Average per farm level of assets, debt, equity, and returns on U.S. cash grain farms[a]

		Year									
		1970	1973	1974	1975	1976	1977	1978	1979	1980	1981[e]
		Average per farm									
Small Farms[b]											
Assets	($)	78,311	98,984	99,010	130,605	148,940	171,921	191,342	223,888	256,219	280,846
Debt	($)	10,511	13,148	15,196	16,918	18,755	20,958	23,668	26,841	31,447	34,917
Equity	($)	67,799	85,836	111,376	113,687	130,185	150,963	167,674	197,047	224,772	245,929
Debt/Assets[c]	(%)	13.4	13.3	15.3	13.0	12.6	12.2	12.4	12.0	12.3	12.4
Total net return[d]	($)	4,592	8,244	12,464	9,741	8,234	6,536	6,861	7,504	7,690	8,453
Net return to equity	($)	411	3,940	6,571	3,507	1,581	-417	-631	-731	-1,481	-1,513
Rate of return to equity	(%)	0.6	4.6	5.9	3.1	1.2	-0.6	-0.4	-0.4	-0.7	-0.6
Medium Farms[b]											
Assets	($)	215,249	273,905	351,986	360,608	410,999	474,476	528,595	619,975	710,034	778,008
Debt	($)	30,152	37,963	43,870	48,735	54,099	60,662	68,537	78,123	91,607	101,657
Equity	($)	185,097	235,942	308,116	311,873	356,900	413,814	460,058	541,852	618,427	676,351
Debt/Assets[c]	(%)	14.0	13.9	12.5	13.5	13.2	12.8	13.0	12.6	12.9	13.1
Total net return[d]	($)	16,649	55,415	48,875	38,361	32,631	25,452	26,155	29,503	30,751	33,250
Net return to equity	($)	10,380	26,787	39,559	28,813	22,385	14,862	14,458	16,676	16,780	18,167
Rate of return to equity	(%)	5.6	11.4	12.9	9.2	6.3	3.6	3.1	3.1	2.7	2.7
Large Farms[b]											
Assets	($)	1,035,771	1,309,521	1,680,376	1,729,483	2,247,911	2,283,547	2,544,127	2,997,094	3,412,370	3,748,833
Debt	($)	168,986	212,020	245,025	272,510	302,291	338,336	382,156	434,415	509,151	565,185
Equity	($)	866,785	1,097,501	1,435,351	1,456,973	1,945,620	1,945,211	2,161,971	2,562,679	2,903,219	3,183,648
Debt/Assets[c]	(%)	16.3	16.2	14.6	15.8	13.5	14.8	15.0	14.5	14.9	15.1
Total net return[d]	($)	72,549	182,830	265,331	201,636	166,225	119,442	116,599	139,710	142,759	151,024
Net return to equity	($)	52,462	154,491	285,096	170,876	133,176	85,368	78,750	98,223	97,670	102,577
Rate of return to equity	(%)	6.1	14.1	16.4	11.7	6.8	4.4	3.6	3.8	3.0	3.2

[a]Farms on which 50 percent or more of farm cash receipts are from crops of corn, sorghum, small grains, soybeans for beans, cowpeas for peas, dry field and seed beans, or peas. [b]Based on data from the 1970 Farm Finance Survey, U.S. Census of Agriculture, but updated to reflect changes in the value and income from farm assets (market value basis). Small farms are those with annual cash farm receipts from $5,000 to $9,999; medium farms from $20,000 to $39,999 and large farms of $100,000 and greater. In 1970, the distribution of farm numbers and cash receipts on cash grain farms by the value of cash receipts was:

	Farm No. (%)	Farm Cash Receipts (%)
$100,000 +	1	11
$ 40,000 - 99,999	8	26
$ 20,000 - 39,999	19	30
$ 10,000 - 19,999	25	20
$ 5,000 - 9,999	24	9
$ 2,500 - 4,999	23	4

[c]Dollars of farm debt for each $100 dollars of farm asset value. [d]Net returns to equity, operator labor, and management. [e]Preliminary.

Given the current supply-demand outlook, ending stocks next August 1 are expected to be up to an alltime high of 54 million cwt., considerably above this year's 17 million.

U.S. rice production costs for 1981, excluding land, are estimated at $9.94 per cwt. This compares with the preliminary cost estimate of $8.92 for 1980, and a 1979 cost of $7.08. Average renter costs per cwt. for the 3 years are $12.53, $11.32, and $9.03, respectively.

Wheat

The record 1981 wheat crop of 2.75 billion bushels, from a record 81 million acres harvested, increased the total wheat supply for the 1981/82 marketing year to a record 3.7 billion bushels, up slightly more than 14 percent from 1980/81. Domestic and foreign demand will be strong, and prices received by farmers are expected to average $3.70 to $3.85 per bushel, compared with $3.96 in 1980/81.

Based on world wheat trade projections, the United States is expected to export a record 1.90 billion bushels of wheat in 1981/82. Early season U.S. trade was marked by increased purchases by China and the USSR.

Farm value of wheat production for 1981 is estimated at $10.4 billion. This 11-percent increase over 1980 reflects a slightly lower average farm price but a larger harvest. Carryover next June 1 is expected to be about the same as a year earlier.

The latest U.S. wheat production cost estimate for 1981, excluding land, is $4.13 per bushel. This compares with the preliminary cost estimate of $3.62 for 1980, and a revised 1979 cost of $2.79. Average renter costs per bushel for 1981, 1980, and 1979 are $5.80, $5.08, and $3.94, respectively.

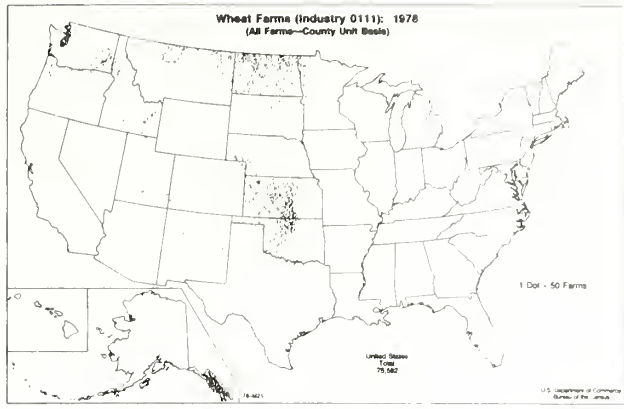
Soybeans

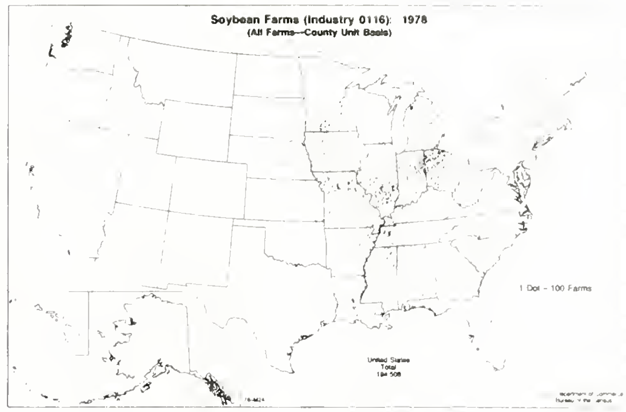
While U.S. soybean supplies will rebound from last season's drought-reduced level, the use of soybeans and products may gain only moderately. This supply/demand situation will push prices down throughout the soy complex, and soybean and soybean oil stocks are projected to build.

U.S. soybean production in 1981 will likely show a 16 percent jump to 2.1 billion bushels. Record and near-record yields in several key producing States will negate a 2-million-acre drop in planted acreage. Larger production and a substantial carryin of 320 million bushels will boost total supplies to 2.4 billion, only 2 percent below the 1979/80 record.

Soybean prices at the farm declined dramatically in response to indications of a bumper crop, dropping from $7.42 a bushel in May to $6.00 in mid-November. The season-average price is expected to fall within $5.75 to $6.75 per bushel.

Total disappearance is projected to reach 2 billion bushels, an increase of 9 percent over the previous season, but 4 percent below the 1979/80 record demand. Prospects for improved crushing margins, resulting from





relatively weak bean prices, will help bolster crushing demand. Crushing is expected to rise 55 million bushels to 1.08 billion. Exports could reach 840 million bushels, up over 100 million bushels. A marked slowdown in oilseed supplies in other exporting countries and a modest expansion in consumption in importing countries are improving U.S. export prospects. Despite these increases, U.S. ending stocks are forecast at a record 395 million bushels.

Because of improved feeding margins and a more favorable soybean meal/corn price ratio, domestic demand for soybean meal should improve. Also, U.S. meal exports for the season may register a 6-percent gain, because crop and livestock conditions in the USSR and Eastern Europe still suggest expanding imports at a time when Brazilian supplies are not expected to increase.

Burdensome supplies and low prices will continue to plague the 1981/82 soybean oil market. The season-average price is projected between 20 and 24 cents a pound. Despite low prices, domestic disappearance and exports may not keep pace with rising supplies, so stocks could grow slightly.

The U.S. average cost of producing soybeans is estimated at $4.97 per bushel, excluding land costs, based on a yield of 30.1 bushels per planted acre. This compares with a $5.02 preliminary estimate for 1980, when a drought caused yield to drop to 26.2 bushels per planted acre. Land costs are projected at $2.44 per bushel based on acquisition costs and $4.49 based on current costs. These projections compare with 1980 preliminary estimates of $2.38 and $4.42, respectively. Average renter

production cost in 1981 is projected at $7.27 per bushel, down 9 percent from the 1980 preliminary forecast of $7.97.

Sorghum

Sorghum prices are expected to average $2.30 to $2.50 per bushel at the farm in 1981/82, compared with $2.95 in 1980/81.

The 1981 sorghum crop is forecast at a record 876 million bushels, 49 percent above last year. Acreage harvested for grain is estimated at 13.6 million acres, 7 percent more than in 1980. Yield per harvested acre is forecast at 64.2 bushels, compared with 1980's 46.2 bushels.

The 1981/82 sorghum supply of 985 million bushels is one-third greater than the previous year. Domestic use will likely be up over 40 percent from 1980/81, while exports may fall 10 percent from last year. Carryover stocks at the end of this season are expected to be around 250 million bushels.

The U.S. average cost of producing sorghum in 1981 is projected at $2.87 per bushel, excluding land costs, based on yields of 55.5 bushels per harvested acre. This compares with the $3.19 preliminary estimate for 1980, when the yield was estimated at 43.5 bushels.

Land costs are projected at $0.75 per bushel based on acquisition costs and $1.22 based on current costs. These projections compare with 1980 preliminary estimates of $0.88 and $1.53, respectively. Average renter cost of producing sorghum in 1981 is projected at $3.89 per bushel, compared with the preliminary estimate of $4.33 for 1980.

COTTON OUTLOOK FOR 1982

U.S. cotton prospects for next year will depend heavily on weather and the level of global economic activity. Because of the extremely large 1981 crop and only modest improvement in total disappearance last year, cotton stocks are projected to reach 5.5 million bales—double the level of a year ago.

Therefore, cotton acreage planted in spring 1982 may be expected to drop from the 14.3 million planted last year, and perhaps fall between 13.2 and 14.2 million. Final planted acreage, however, will depend upon producers' expectations about relative crop prices, yields, and production costs during the 1982 season.

If cotton yields and abandonment return to more normal levels, the 1982 cotton crop could total between 11.5 and 14 million bales, moderately below 1981. But, with a gradual recovery in world economic activity and easing of interest rates, prospects are for improved mill use and exports, with some reduction in cotton stocks.

Production costs are expected to continue climbing. But, since the mid-1960's, cotton yields have fluctuated greatly. Unless yields can show continued improvement, producers will experience sharp year-to-year variations in incomes and associated cash flow problems. With tighter cost-to-returns relationships in the future, needed capital investment may be limited, and U.S. cotton acreage is unlikely to increase very much.

1981 Financial Conditions

The 1981 cotton crop is estimated at 15.6 million bales—up 40 percent from last year's 11.1 million. Extremely favorable planting and growing conditions in most producing States are expected to boost average yields to a near-record 543 pounds per harvested acre, compared with only 404 pounds for 1980/81 (table 16). Planted acreage in 1981 totaled 14.3 million acres—about the same as last season, but a low abandonment of about 3.9 percent should result in harvested acreage nearly 600,000 acres above 1980/81.

Largest production gains will occur in the Southwest and Delta States, with output increasing 73 and 41 percent, respectively. In the West, cotton production should increase to about 5.2 million bales—13 percent above 1980/81. Southeastern producers are expected to harvest 773,000 bales, compared with 498,000 the previous year.

With sharply larger U.S. supplies and competitive cotton prices, disappearance for 1981/82 is expected to be moderately above the depressed level of last season. Combined domestic use and exports are placed at 12.9 million bales, nearly 10 percent above 1980's 11.8 million. Domestic textile mills may consume around 5.9 million bales in 1981/82, the same as a year ago. U.S. cotton exports should rebound during 1981/82 to an estimated 7.0 million bales, an increase of 1.1 million above 1980/81.

With production well above total use, prices have experienced downward pressure throughout the season. They are currently 20 to 25 cents a pound below a year earlier.

In spite of sharply lower cotton prices this season, the large 1981 crop should push the farm value of production above 1980's level of $4.7 billion.

If farm prices remain around current levels, the gross value of cotton sold in 1981 may total between $5.0 and $5.2 billion. Included in this estimate is the value of cottonseed sold, an important contribution to farm income. For the 1981 season, cottonseed returns may range from

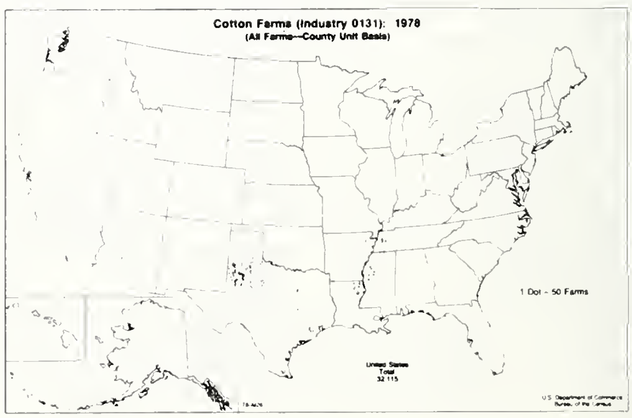


Table 16—Upland cotton: Acreage, yield per acre, production, and average cost of production by region, 1980-81[a]

Item	Southeast 1980	Southeast 1981	Delta 1980	Delta 1981	Southwest 1980	Southwest 1981	West 1980	West 1981	United States 1980	United States 1981
Acreage harvested (1,000 acres)	672	745	2,846	3,010	7,438	7,748	2,259	2,247	13,215	13,750
Yield per harvested acre (Lbs. lint per acre)	355	498	409	545	229	380	988	1,118	404	543
Production (1,000 bales)	498	773	2,424	3,420	3,550	6,135	4,650	5,232	11,122	15,560
Production costs[b] (cents a lb.)	124	([c])	93	([c])	100	([c])	63	([c])	84	68

[a]1981 data preliminary. [b]Excludes land, and adjusted for cottonseed values. [c]Not available.

$650 to $680 million, compared with $577 million last year.

During the 1980 crop year, producers received large disaster payments totaling $302 million, as bad weather damaged the crop and caused extensive acreage to be abandoned (table 17). Most of the abandoned acreage, however, was in Texas and Oklahoma. Disaster payments for the 1981 season are estimated to be substantially below last year. If payments are made to eligible producers whose 1981 production loss exceeds 25 percent of their farm payment yield, the payment rate will be one-third of the 1981 target price, or 23.6 cents a pound. The 1981 season is the last year for the disaster payment program, which is being replaced by optional Federal Crop Insurance.

For 1981, cotton farm income will be aided by deficiency payments made under the Food and Agriculture Act of 1977. Payments will be made if the national average farm price of upland cotton during calendar 1981 is below the 70.87 cents per pound target price. The payment rate is the difference between the target price and the farm price, but the exact level of payments will not be determined until early 1982. Farm prices averaged 70.6 cents per pound during the first 9 months of 1981, 66.0 cents in the third quarter, and stood at 63 cents a pound in November. But, since the final calendar year average is a sales-weighted monthly average, the final farm price which is compared to the target price will be heavily influenced by farm prices during the heavy harvest months of the fourth quarter. Estimates are that for each 1-cent deficiency payment made, gross farm income would increase by about $70 million. Payments to any individual producer, however, are limited to $50,000 under current farm legislation.

Upland cotton production costs (excluding land costs) are estimated at $406 per planted acre in 1981, up from $349 last year. But, per-pound costs for 1981 will drop sharply this season because of the much higher expected yields. Based on the current yield estimate of 522 pounds per planted acre, per-pound costs (excluding land) totaled 78 cents in 1981, compared with about 95 cents in 1980. Adjusted for the value of cottonseed sales, net costs this year are around 68 cents a pound, down from 84 cents last season. Therefore, with the estimated total cost of production above average farm prices, many producers will not cover full costs during 1981. However, variable costs are generally below farm prices, and most production expenses should be met. Farm returns above variable costs in 1981 should average about $55 to $60 per planted acre—about the same as for the 1980 crop. In addition, while no exact estimates are available, off-farm earnings may be significant. Cotton producers also own and operate many of the 2,332 cotton gins—individually, in partnership with others, or through cooperative associations.

Table 17—Percent of cotton acreage abandoned before harvest, by region, 1976-81[a]

Year	Southeast	Delta	Southwest	West	U.S.
			Percent		
1976	7.2	8.6	6.1	1.0	6.4
1977	11.6	2.4	3.0	.7	3.1
1978	5.0	4.5	10.2	2.5	7.4
1979	2.7	5.7	11.0	2.0	8.1
1980	2.5	3.7	13.4	1.9	9.1
1981[b]	1.0	6.5	4.2	1.6	3.9

[a]Harvested acres as a percent of planted acres. [b]Prelimina

Table 18—Average price received for upland cotton by farmers, and volume of cotton contracted for sale by region, 1977-81

Crop Year	Average price received by farmers, U.S. (Cents/Pound)	Percentage of upland cotton acreage contracted for sale[a]: Southeast	South Central	Southwest	West	U.S.
1977	52.1	9	19	19	34	21
1978	58.1	15	39	10	46	24
1979	63.1	21	35	14	27	21
1980	76.1	33	63	20	41	34
1981	[b]62.1	10	19	7	9	10

[a]Through Oct. 31. [b]Simple average through October.

TOBACCO OUTLOOK FOR 1982

Tobacco supplies for 1981/82 are above a year ago; however, loan holdings have been considerably reduced. This year's production is up 13 percent because of better growing conditions. The prospect is for a reduced crop size next year.

The most notable development for tobacco in 1981 was the review of the tobacco price support and quota authority by the U.S. Senate and House of Representatives. Amendments to significantly change or eliminate the program were defeated, but virtually all features of the program will be reviewed and are subject to legislative change later on.

Government price support is mandatory for tobacco produced under marketing quotas. The legal formula requires that price support for eligible tobacco go up about 11 percent in 1982 from 1981. The size of the 1982 crop depends greatly on USDA's quota levels. Effective quotas are likely to drop below 1981 amounts primarily because of reduced quota carryover. The prospect is for a reduced crop next year and with higher prices, the crop value may not change much from 1981. The reduced quota next year is expected to push up lease rates in 1982 and lower net returns to tobacco producers.

Despite reduced acreage, flue-cured growers are producing about 4 percent more in 1981 than a year ago. The 1981 flue-cured auction season ended during early November, and prices averaged $1.67 per pound, 22 cents above last season.

The burley crop, the largest since 1963, is 28 percent above last season. The burley markets open in late November and prices during 1981 are expected to rise to an all time high, surpassing the 1980 season's record of $1.66 per pound.

PEANUT OUTLOOK FOR 1982

Peanut supplies will be ample during the 1981/82 marketing year because the crop rebounded from the drought last year. Weather was more normal over the growing regions, and yields sharply increased over the 1980 average. Production fell only 2 percent short of the record outturn in 1979. Some of the early harvest sold well above support, but by late October prices for quota peanuts that had not been contracted dropped to near the loan rate of 22.75 cents per pound. Many growers were placing peanuts under loan, taking a chance that prices would rise later in the season.

The peanut program for 1982, contained in the omnibus farm bill, eliminates acreage allotments but retains farm poundage quotas. Quotas have been reduced to 1.2 million tons and the 1982 price supports for quota peanuts goes to a minimum of $550 per ton, $95 above the 1981 floor. USDA can fix support for nonquota peanuts at market conditions that would avoid any net cost to the Government.

VEGETABLE FARMS OUTLOOK FOR 1982

Producers of fresh market vegetables will enter 1982 in good financial condition, despite the Florida freeze last January and excessive rains in some areas in August. During third-quarter 1981, the index of farm prices for fresh market vegetables stood at 122 (1977=100), 16 percent higher than a year earlier. While production costs will continue to escalate during 1982, fresh vegetable prices are expected to keep pace.

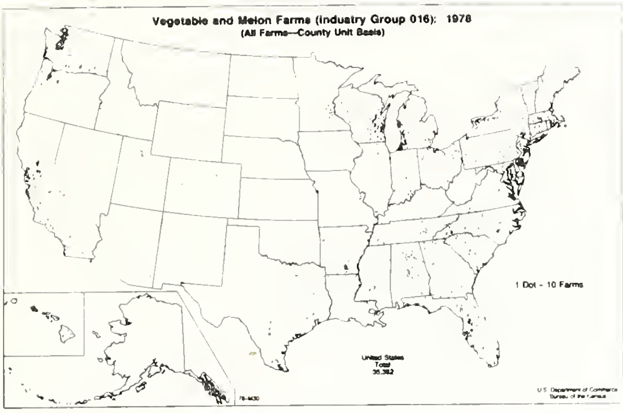
Total receipts from sales of vegetables for processing are expected to average higher than last year because of lower carryin stocks and smaller packs of most items. Thus, growers of processing vegetables should also be in good financial condition going into 1982.

The financial condition of potato producers throughout the United States is the best in several years. Producers received the highest prices on record for the 1980 fall crop. The 1981 fall crop is expected to be 8 percent larger and prices will be lower than a year ago, but with good demand in both the fresh and processing outlets, prices will still be favorable and potato growers will prosper.

Similarly, the financial outlook for dry bean growers is good. The 1981/82 crop is estimated at a record 31.2 million cwt., 19 percent above a year ago. Prices for dry beans have declined in recent weeks, but with continued strong export demand from Mexico, prices are expected to remain favorable through at least the first half of 1982.

1981 Financial Conditions

Producers of fresh market vegetables had a good year in 1981. The index of grower prices for fresh and processed vegetables during the first half of the year averaged about 10 percent higher than a year ago. Increased prices reflected short supplies of winter and spring vegetables, resulting from smaller acreages; a January freeze in Florida; and reduced imports from Mexico. Prices declined in July and August, as supplies increased to normal levels. Grower prices for fresh vegetables are likely to increase seasonally during the fourth quarter of 1981 and first quarter of 1982 and average about 5 percent higher than a year ago.



Production of winter and spring vegetables in 1981 totaled 80.4 million cwt. Summer and fall production will probably total about 114 million cwt. The larger domestic production was partially offset by sharply lower imports from Mexico during the winter and spring, because Mexico's crops were damaged by excessive rains during their winter season.

Largely because of the high first-quarter prices, the total value of fresh vegetables marketed during the first half of 1981 is estimated to be well above the $1.1 billion recorded a year ago. Crop values are expected to remain above year-earlier levels through the remainder of 1981. With production costs leveling off, net income to growers should be higher in 1982.

Raw tonnage of seven major processing vegetables in 1981 is expected to be approximately 10.3 million tons, about 3 percent less than a year ago. Production declines are expected for green snap beans, beets, green peas, winter and spring spinach, and tomatoes. Increases are forecast for green lima beans and sweet corn. Substantial decreases in contracted tonnage of snap beans (down 16 percent), beets (23 percent), green peas (6 percent), and tomatoes (10 percent) highlight the season. Cucumber production contracted for pickles in 1981 is estimated at 527,340 tons, down 2 percent from 1980. Pickle stocks, at 448,300 tons, are 13 percent below the October 1, 1980, level. Smaller crops indicate tighter supplies of canned and frozen vegetables during the 1981/82 marketing year. In 1981, processors restricted the amount of tomatoes contracted for processing. Unfortunately, California also had poor tomato-growing weather, and tonnage was reduced further. As a result, the pack of canned tomatoes and tomato products will be small this year, and prices will be above last year. Tomato growers should be able to negotiate substantially higher contracts in 1982.

The U.S. fall potato crop, estimated at 287 million cwt., is moderately larger than in 1980. Grower prices for the fall crop are expected to be substantially below the record-high levels of a year ago.

Grower prices for dry beans will be lower this fall than a year ago because of a record-large crop and a somewhat weaker demand for exports. Mexico, our leading customer the past 2 years, is striving to become self-sufficient in dry bean production in 1982. However, early Mexican purchases from the 1981 U.S. crop have buoyed prices so far this season.

FRUIT AND NUT FARMS OUTLOOK FOR 1982

The financial outlook for fruit producers during 1981/82 will be better than last season, but the prospects for tree nut growers are not as favorable as a year earlier. Substantial decreases in production of apples, grapes and oranges are likely to hold grower prices significantly higher than last year. In addition, export demand for noncitrus fruit, particularly apples, looks promising. With prospects for higher prices and a moderate increase in the cost of inputs, grower profits are expected to be above those of 1980/81.

The 1981 noncitrus crop, including major fruits, grapes, and cranberries, is 11.9 million tons, 15 percent below last year's record. Smaller production was recorded for all crops except nectarines.

The final forecast for the 1981 U.S. apple crop was 7.92 billion pounds, 10 percent less than last year's record. Because of sharply smaller crops in the Central and Eastern States and lower stocks of most processed items, processors have bid processing apple prices substantially higher than a year earlier. Export prospects for fresh apples look bright because the 1981 apple crops in most Western European countries and Eastern Canada are expected to be below 1980. Exports of fresh apples to the other parts of the world, particularly the Far East and the Mideast, are expected to continue strong. A smaller crop and anticipated good demand will strengthen prices during the 1981/82 season.

The final forecast of U.S. grape production, at 4.25 million tons, is 24 percent smaller than last year's record. Good demand and smaller supplies have caused sharply higher grower prices than last season.

The final forecast of the U.S. pear crop for 1981 is 856,300 tons, 4 percent smaller than a year earlier. The larger supplies of pears for fresh market, available because of the reduced pack of canned pears, have lowered Bartlett prices. Prices for winter pears may strengthen somewhat because of a smaller crop and reduced competition from fresh apples and oranges. Overall, prices received by pear growers may average near last year's level.

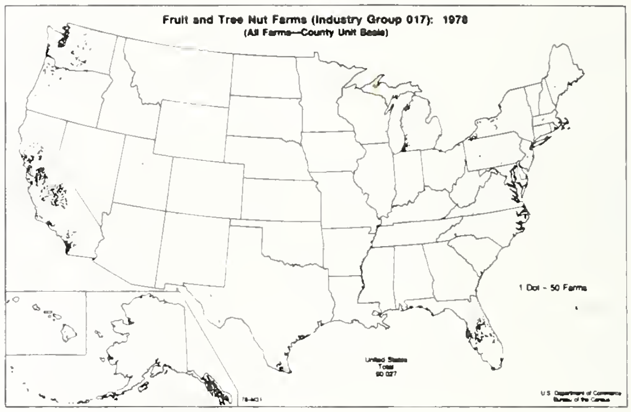
The latest forecast of the 1981/82 citrus crop is 14.4 million tons, down 4 percent from last season, with smaller crops expected for oranges, lemons, and tangerines. The orange crop is estimated at 222 million boxes, 10 percent below last season. In Florida, the forecast for production of all oranges calls for 166 million boxes, 4 percent below last season's freeze-damaged crop. California expects 47 million boxes, 29 percent less than last season's record crop. In contrast, orange production in Texas is expected to be 43 percent larger, while Arizona's production is up only 2 percent. Prices of fresh oranges will be strong in view of sharply lower supplies of California oranges and reduced competition from a smaller apple crop.

Prospects for this season's U.S. grapefruit production points to a crop of 72.1 million boxes, 13 percent above last season. The California-Arizona lemon crop is expected to total 30.1 million boxes, 5 percent below the 1980/81 record. The sharply larger grapefruit crop may pull prices slightly to moderately below last year. However, lemon prices are likely to average slightly higher than last year's low level.

Crops of almonds and walnuts in 1981 will be record large. The pecan crop is expected to be up sharply from last year's small output, while filberts will be down fractionally. Generally larger crops abroad will weaken demand for U.S. tree nuts. As a result, prices received by growers are expected to average moderately below last year.

1981 Financial Conditions

Gross income for growers of most fruits and tree nuts was relatively good in 1980/81. Even with a moderately smaller crop, the value of 1980/81 citrus totaled $1.9 billion, almost the same as a year ago, reflecting substantially higher prices for most citrus. In contrast, generally lower noncitrus prices, resulting from a record crop, contributed to a total 1980 value slightly below 1979. Although preliminary figures for the total value of noncitrus production in 1981 will not become available until January 1982, it is expected to be below 1980. The total value of 1980 tree nut production decreased to $928 million, only slightly below 1979.



Fruit and Tree Nut Farms (Industry Group 017): 1978
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